

Alfred Marshall's Last Challenge

His Book on Economic Progress

Title Page

Economic Progress



Possibilities of the economic future



By

Alfred Marshall



Edited and Introduced by

Katia Caldari and

Tamotsu Nishizawa

Alfred Marshall's Last Challenge

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“It would not be foolish to contemplate the possibility of a far greater
progress still.”
—John Maynard Keynes, *Economic Possibilities for our Grandchildren*

“Believing in progress does not mean believing that any progress has yet
been made”
—Frank Kafka, *The Zürau Aphorisms*

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PREFACE AND ACKNOWLEDGMENTS

This book is the fruit of a particularly challenging project and summarizes our research and work of many years in the UK, Italy and Japan. The challenge lay in the ambitious project to piece together and publish Marshall's final volume on economic progress which remained unfinished and was never published. Our work was not easy and of course we are well aware that the result presented here does not exactly match what Marshall planned to draw up to be published. We have tried to get as close as possible to his original project and to tackle the lacunae due to missing material and fragments that were sometimes hard to decipher or arrange coherently. The outcome we have reached here has no pretence, therefore, of proposing Marshall's final "book that never was", but we believe that it offers the most significant and interesting insights that would have been part of that book.

As explained and summarised by Frances Willmoth ("The Marshall Archives: a progress report", *Marshall Studies Bulletin*, 1992) and Alexandra Saunders ("The Marshall Archives: a progress report", *Marshall Studies Bulletin*, 1996), the archivists at the Marshall Library some years ago, the Marshall archives collection consists of several papers, manuscripts and other materials, sorted into different sections: correspondence, lectures, notes, writings, graphs and tablets, papers for the creation of the Economic Tripos, photographs and various other items. In the Archives, all this material is grouped in different folders, distinguished by topic (method, accounting, stock exchange, banking, money and so forth). Only one of them is titled "Progress. Ideals" (folder 5.9): in this folder, there are "miscellaneous undated notes on progress and ideals for Marshall's proposed volume on economic progress".

However, we found that these are not the only notes dealing with progress, ideals and the connected subjects but many other notes on these subjects exist in other folders which are given different titles in the Archive catalogue (for instance, in folder 5.13.1 entitled "accounting"; in folder 5.8 on "Method"; in folder 5.6 entitled "Various", and so on). Moreover, given the multifaceted nature of the concept of progress in Marshall, the topics related to it are indeed various: from the efficiency of labour to the role of government – from the role of sectional interests to ideals for the future. This further explains why, in choosing the manuscripts to transcribe, we have considered not only the several notes catalogued as notes for the book

on progress (in folder 5.9) but also a larger amount of materials on the topics that the volume was to have focused on. We have therefore collected and transcribed the notes written in old age by Marshall specifically for the book on Economic Progress plus some other notes that Marshall was working on and adapting for his last volume. These latter notes had been amended and revised many times; sometimes different dates are indicated on the manuscripts; more often the different kinds of pen used, and the handwriting present in those notes testifies that additions or changes had been made by Marshall at different times. Actually, Marshall's age can readily be deduced from his handwriting and often even from the colour of the ink used to write: for instance the notes in red pen belong to the period when Marshall focused especially on the first editions of the *Principles of Economics*; whereas the notes and comments in blue pencil belong to the old Marshall and his reflections for his last book on progress. This is why we have recorded – where significant – the kind of pen used and sometimes Marshall's style of handwriting. A crucial tool to frame Marshall's idea of progress and accordingly choose the material to be transcribed lay in the several outlines written by Marshall himself for his projected volume, as will be explained in the Introduction below.

We are deeply grateful to the great number of people, friends and colleagues, who in the past years have supported our project, sustained us in the most difficult moments, and encouraged us to continue this work when the difficulties had almost convinced us to abandon this project. Our debts of thanks have accumulated. We want particularly to thank Richard Arena, Roger Backhouse, Marco Dardi, Martin Daunton, Fulvio Fontini, Cristina Marcuzzo, Steven Medema, Neil Rollings, Frank Trentmann and also some friends who are have left us along the way, including Giacomo Becattini, Peter D. Groenewegen, Tiziano Raffaelli, Yuichi Shionoya, John K. Whitaker, and Donald Winch.

We are particularly grateful to the Marshall Library of the University of Cambridge, the copy right holder, for permission to reproduce Marshall materials from the collections held in the Marshall Archives.

We are greatly indebted to the helpful team of the Marshall Library and especially to Simon Frost, who has helped us far beyond his assignment and has made the many difficulties involved in reading and tracing Marshall's manuscripts less difficult.

Last but not least, we are very grateful for the generous financial support from the Japan Society for the Promotion of Science (JSPS) for Grants-in-Aid for Scientific Research.

This work would not have been possible without their help, support and guidance. None of them, however, bear responsibility for any shortcomings in this publication.

INTRODUCTION

Principles of Economics...and beyond

For a long time the literature had interpreted Marshall's contributions on the basis of the *Principles of Economics*, and especially Book V: accordingly, the focus had been on the theory of equilibrium between demand and supply and on the analytical tools formulated by Marshall in that part of the volume. This line of interpretation underlined several inconsistencies in Marshall's reasoning that emerged from his theoretical apparatus (representative firm, time analysis, increasing returns and so forth). However, this criticism could only develop on the basis of a very partial reading of Marshall that prevented a proper understanding of his contributions. Far from being easily accessible – and all the more on the basis of his published works alone – Marshall's reasoning could be clarified and fully comprehended after the issue of some important unpublished material: most notably Marshall's early writings (Whitaker 1975); his early philosophical writings (Raffaelli 1994); and his correspondence (Whitaker 1996). Through these important sources it has been possible to build up and understand part of the complex puzzle of Marshall's thought (his methodological approach, evolutionary perspective, theory of value, industrial economics, and so forth). Other pieces of the puzzle are, however, to be found in other parts, and notably in the manuscript notes written for Marshall's last unfinished book on economic progress, which never saw the light of day.

Marshall's *Principles of Economics* (first published in 1890, with eight editions the last one in 1920) is a lifelong book which indeed never fully satisfied him insofar as it was only part of a more ambitious project which was never fulfilled. Marshall's original plan was to write a general treatise in two volumes: the first was the *Principles of Economics*, Volume I which was actually published in 1890, whereas, the second volume never came out. Marshall tried to retain the specification "Volume I" on the cover of the book as long as possible, against the opinion of the editor Macmillan, who waited – in vain – for the second volume: it disappeared from the cover as from the sixth edition of the *Principles* (1910) and was replaced with the sub-heading "An introductory volume".

The many difficulties that prevented the publication of the second volume of the projected original treatise and that made it “moribund”¹ as early as 1895 lead Marshall to undertake an alternative companion work with the title of *National Industries & International Trade*. This treatise was to have been in three volumes (Whitaker 1990: 210; Groenewegen 1995: 704–6) but even this project remained unfinished as only two volumes were published: the first volume in 1919 with the title of *Industry and Trade*; the second volume in 1923 as *Money, Credit and Commerce*. From the correspondence with Macmillan we know that the projected third volume was on the “Functions of Government and the Possibilities of Social Advance” which was partly the content of the planned and unpublished second volume to be published after the *Principles* volume I (Whitaker 1975, I: 89, 1990: 195). Nevertheless, Marshall never gave up the idea of publishing the substance of these unfinished volumes and to the very end (until his death) he was planning to issue a book on “Economic Progress” which, however, never appeared.

The *Principles of Economics* was widely considered the most significant of Marshall’s scientific and theoretical contributions whereas *Industry and Trade* and *Money Credit and Commerce* remained rather in the background: the former because it was considered a volume on economic history and applied analysis with little theoretical structure; the latter because, when published in 1923, it proposed a monetary theory already well-known (the so-called Cambridge oral tradition on monetary issues; see Keynes 1924) and thus had little appeal. Of the *Principles* it was Book V which attracted most attention. Book V is the analytic core of the volume, addressing “General Relations of Demand, Supply and Value”: it deals with the important topic of economic equilibrium, develops time analysis and provides the Marshallian “box of tools”.

A multifaceted box of tools

The centrality of Book V was often seen as being endorsed by Marshall himself when he pointed out that “It is not descriptive, nor does it deal constructively with real problems. But it sets out the theoretical backbone of our knowledge of the causes which govern value (...)” (Marshall 1920: 324). This idea seems to be confirmed in a letter to L.C. Colson in 1909 where he maintains: “the purely analytical work in Book V of my *Principles*, with a part of Book III, were the kernel from which my volume expanded backwards and forwards to its present shape” (Whitaker,

¹ As Marshall wrote in a letter to E. Cannan, quoted in Whitaker (1990: 198).

1996, III: 228). However, in a letter to Edgeworth on August 28, 1902, Marshall points out: “What I *meant* however is – for the greater – contained in the last two lines of Vol. I, p.788. “The ground traversed in Book V and Book VI commands and gives access to that which lies yet before us”. To that I *adhere*, and I like it better than the old phrase “a kernel”. But V and VI *rest* on III and IV; and VI is often concrete. In that old phrase you would perhaps take *the kernel to be the essential part: I take it to be a small part*; and, when taken alone, more likely to be misapplied than in the case of other science. *In my view “theory” is essential*. But I conceive no more calamitous notion than that abstract, or general, or “theoretical” economics was economics “proper”. *It seems to me an essential but a very small part of economics proper [...]*” (Whitaker, 1996, II: 392-393, emphasis added). In order to better clarify this point Marshall makes an important change in the text of *Principles*: in the first four editions he wrote: “But the ground which we have already traversed is, in some respects, the most difficult of the whole province of economics; and it commands, and, so to speak, *holds the key* of that which lies yet before us” (Marshall 1961, vol. II: 720-21, emphasis added). From the fifth edition onwards, the same phrase is modified as follows: “But the ground which we have traversed in Books V and VI is, in some respects, the most difficult of the whole province of economics; and it commands, and *gives access to*, the remainder” (Marshall 1920: 722, emphasis added). This change, which may seem a mere matter of style, actually contains an important indication regarding Marshall’s methodological approach.

According to Marshall, economic science does not have a method *par excellence*: being a social science, it deals with several complex aspects and therefore it has to make use of all the methods available to sciences (sociology, anthropology, biology, and so forth) and that can be useful for economic inquiries. As specified in a letter to John Neville Keynes in 1889: “In my new book I say of *methods* simply that economics has to use every method known to science. And as to the scope, I say ‘Economics is a study of mans actions in the ordinary business of life it inquires how he gets his income & how he uses it’ ” (Whitaker, 1996, I: 299-300). Accordingly, the analytical-mathematical method which characterizes pure economics is to be considered only one among the other several methods: it is indeed the simplest in so far as it is based on simple relations and excludes a number of elements that might complicate analysis. It is what Marshall calls the economic toyshop contrasted to the practical workshop, as stressed in a letter to E.R.A. Seligman on April 23, 1900 (Whitaker, 1996, II: 276).

However, if the toyshop is not sufficient, it is indeed necessary to the economist's box of tools or organon: "Ultimately part of this organon will no doubt be presented as a perfectly pure or abstract theory" (Marshall 1885b: 160). Its importance is explained by Marshall as follows: "It is becoming clear that the *true philosophic raison d'être of the theory is that it supplies a machinery to aid us in reasoning* about those motives of human action which are measurable" (Marshall 1885b: 158, emphasis added). Although he warns that "this idea of *measurability*² should be always present [but] it should not...be prominent" (Marshall 1885b: 161, emphasis added), he insists that "*The complexity and intricacy of social phenomena afford no reason for dispensing with the use of the economic organon in its proper place: on the contrary they increase the necessity for it*" (Marshall 1885b: 163, emphasis added). This explains why, as from his early economic studies³ and writings (Whitaker, 1975, 2 vols.), Marshall made use of the analytical-mathematical method which became a crucial part of his "organon" as the fundamental basis to approach the complexities of economic science with the necessary accuracy. Book V of the *Principles* finds its *raison d'être* as intended to be just an "introductory volume", the first part of a more complex study of economic relations, and therefore "deals [only] with abstractions" (Marshall 1898: 52).

The function of the organon as necessary but not sufficient basis is well explained in one of his early writings *The Pure Theory of Foreign*

² In a speech given at the University of Cambridge in October 29, 1897, Marshall maintained: "The nineteenth century has in great measure achieved *qualitative* analysis in economics; but it has not gone farther. It has felt necessity for *quantitative* analysis and has made some rough preliminary surveys of the way in which it is to be achieved; but the achievement itself stands over for you. "Qualitative" and "quantitative" analysis are terms borrowed from chemistry – a science that deals with things as they are, and not with their growth; and therefore the terms are not exactly what we want. But they must serve. Qualitative analysis tells the iron-master that there is *some* sulphur in his ore, but it does not enable him to decide whether it is worth while to smelt the ore at all, and, if it is, then by what process. For that purpose he needs quantitative analysis [...]. And so it is also in economics. Every event has many effects; some work good, others evil. Some are permanent, others will quickly pass away. Some effect many, others only few. Some grow cumulatively, others invite a reaction. Mere qualitative analysis, then, will not show the resultant drift of economic forces" (Marshall 1897a: 301).

³ As he recalls in a letter to L.C. Colson in 1909: "I read Mill's *Political Economy* in 1866 or '7, while I was teaching advanced mathematics: and, as I thought much more easily in mathematics at that time than in English; I tried to translate him into mathematics before forming an opinion as to the validity of his work. [...]" (Whitaker, 1996, III: 227).

Trade (Whitaker 1975): “The province of the pure of abstract theory of Economics.... is to deduce conclusions from hypotheses which correspond as closely as may be to the conditions that occur in fact. The greater the simplicity of the hypotheses the less close can be this correspondence, but the greater can be the exactness of the conclusions deduced from them. The hypotheses which are selected for the groundwork of the science are simple. Familiarity with the process of tracing conclusions from such hypotheses gives the power of dealing with problems based on hypotheses which gradually become more complex, and therefore capable of being made to approximate more closely to the facts of life. The number of problems to be worked out increases at each successive stage of the approximation, and before many stages have been passed the number becomes so vast as to be wholly unmanageable. Moreover, *in the later stages of the work ethical and other social considerations must be introduced* that are not strictly homogeneous with those which enter into the fundamental hypotheses.” (Whitaker, 1975, II: 118, emphasis added).

The most troublesome aspect of reality to deal with in economic analysis is the passing of time. Marshall placed the concept of time at the core of his economic reasoning, developing a number of analytical tools that allow time to be included in his analytical framework: most notably, the *ceteris paribus* pound, the representative firm, and the distinction between short and long periods.

Leaving aside what he considers the excessively “violent” and unreal assumptions that are connected with the idea of stationary state, Marshall resorts to the static method where the *ceteris paribus* clause comes into play: “*The element of time is a chief cause of those difficulties in economic investigations which make it necessary for man with his limited powers to go step by step; breaking up a complex question, studying one bit at one time, and at last combining his partial solutions into a more or less complete solution of the whole riddle. In breaking it up, he segregates those disturbing causes, whose wanderings happen to be inconvenient, for the time in a pound called Ceteris Paribus. The study of some group of tendencies is isolated by the assumption other things being equal: the existence of other tendencies is not denied, but their disturbing effect is neglected for a time*” (Marshall 1920: 366, emphasis added).

By means of this clause, Marshall develops Book V's equilibrium theory and time-period analysis with the distinction between “short” and “long” periods. The equilibrium theory relies on the relations between demand and supply for a single commodity alone and in a given time-period framework, which leads to the well-known distinction between temporary equilibrium, short-period equilibrium, and long-period

equilibrium. The crucial element of differentiation among them is on the supply side and focuses on the capacity of adjustments that supply has in response to variations on the demand side. Although any attempt at “rigid demarcation” among them is to be avoided (Marshall 1920: 378) insofar as time is something “absolutely continuous” (1920: vii), we do indeed find the distinction between temporary equilibrium, short-period equilibrium and long-period equilibrium (Caldari 2017; Hart 2012).

While for short periods, the use of the *ceteris paribus* clause and of the equilibrium framework is not likely to raise too many problems because it is certainly admissible to isolate a problem from its context, to focus on it, and to discover its equilibrium conditions, this method becomes much less acceptable when long periods are under consideration and “*violence is required* for keeping broad forces in the pound *Ceteris Paribus*” (Marshall 1898: 49, emphasis added). Moreover, there is an evident and unavoidable contrast between a long-run perspective and an equilibrium construction that Marshall has tried to resolve — rather unsuccessfully—by means of the representative firm, an “analytical and statistical construct” that represents “in miniature the supply curve of the industry” (Hart 2012: 86), as in a forest, a tree may be chosen as being representative of the other trees that may be growing and dying (Marshall 1920: 315–316; 367). Accordingly, in an industry, firms may rise and fall—depending on their life cycle—whereas the representative firm can be taken as constant in its relative size. The representative firm, therefore, should allow a long-period equilibrium to be addressed without disregarding the several individual firms in disequilibrium which belong to the industry in question. Nonetheless, connected with the representative firm we find the so-called “reconciliation problem”, which arises when change—due to the passing of time and its irreversibility—is dealt with in an equilibrium framework. This problem was clear to Marshall himself, who notes: “this theory is out of touch with real conditions of life, in so far as it assumes that, if the normal production of a commodity increases and afterwards diminishes to its old amount, the demand price and the supply price will return to their old positions for that amount” (1920: 807). These problematic aspects explain the reason why Marshall points out that “*this work is [only] preliminary*; [and] it does not lead direct to useful conclusions” (Marshall 1898: 52, emphasis added). In order to get closer to the real world it was necessary to leave aside such strong assumptions and hypotheses and take the real dimension of time into due account.

The book on economic progress

When Marshall refers to the “time dimension,” he uses two different concepts, often “without any specific explanation, but leaving the context to explain his meaning” (Guillebaud 1952: 126): (a) time as an operational tool; and (b) time as real clock time (see Opie 1931; Robertson 1952). The former is suitable for abstract analysis and is used in Marshall’s theory of equilibrium; the latter is a crucial aspect of real life and problems. Although Marshall tried to somehow link the two concepts by means of the principle of continuity (Hart 2012; Raffaelli 2003), real time involves an unavoidable path-dependence that cannot be taken into account by operational time, which characterizes the division into short and long periods. This is pointed out by Marshall: “the theory of stable equilibrium of normal demand and supply helps indeed to give definiteness to our ideas; and in its elementary stages it does not diverge from the actual facts of life. But when pushed to its more remote and intricate logical consequences, it slips away from the conditions of real life. In fact we are here verging *on the high theme of economic progress*; and here therefore it is especially needful to remember that economic problems are imperfectly presented when they are treated as problems of statical equilibrium, and not of organic growth”⁴ (Marshall 1920: 461, emphasis added). This explains why economic progress is one of the most pervasive subjects in Marshall’s writings, even in the *Principles* (Caldari, 2004, 2006a; Caldari and Nishizawa, 2011, 2014), and the main topic of his last unfinished book for which several notes still exist.

Marshall conceives that “the progress of man’s nature” is “the centre of the ultimate aim of economic studies” (Marshall 1961, vol.2: 75), and, accordingly, “economists learnt to take a more hopeful view of the possibilities of human progress” (Marshall 1920: 48). As he pointed out before the Royal Commission on the Aged Poor (Keynes, 1926: 205), he devoted his life to the problems of poverty; economic progress would eliminate poverty and provide material means for all the people to develop their faculties and activities. Accordingly, he often refers to “the distant

⁴ The two concluding chapters of the *Principles* are titled “General Influences of Progress on Value” and “Progress in Relation to the Standards of Life”: in the Preface to the last edition of *Principles* Marshall underlines that “the main concern of economics is with human beings who are impelled ... to change and progress” (1920 xv) and he often stresses the notion of “organic life-growth” and the idea that “economics is a science of life” (see for instance 4th ed.: 9).

goal where the opportunities of a noble life may be accessible to all”⁶. Elected as Professor of Political Economy at the University of Cambridge in December 1884, Marshall was asked to address the Industrial Remuneration Conference towards the end of January 1885. Here he concludes his speech by referring to economic progress as “the first aim of every social endeavour” (Marshall 1885a: 182); this idea is also emphasised in the last concluding paragraphs of *Money, Credit and Commerce* (Marshall 1923: 262-63).

In his last published book *Money, Credit and Commerce* he explicitly refers to his volume on Economic Progress: “the causes which govern the richness of the reward of the work.... those causes are the deepest concern to the student of the conditions of social well-being; and they are designed to have a prominent place in the final volume of the present series” (Marshall 1923: 234). In the Preface to the volume, Marshall also recalls that *Industry and Trade* was to be followed by a study of the influences on the conditions of man’s life and work which are “exerted by the resources available for employment; by money and credit; by international trade and by social endeavour”. However, the task proved too difficult and he therefore admits that “it seemed best to publish the present volume, which aims at accomplishing one-half of the task. A little progress has been made in regard to the second half: and, although old age presses on me, I am not without hopes that some of the notions, which I have formed as to the possibilities of social advance, may yet to be published” (Marshall 1923: v-vi; see on this Nishizawa forthcoming). However, Marshall’s hopes were to be disappointed and, as we have seen, the volume on economic progress remained an unattainable goal.

The material written and to be used for this last volume is preserved at the Marshall Library Archive, in Cambridge. Although part of that material consists of a number of reprints (some of them partly modified) and notwithstanding the fact that a few manuscript notes have recently been published by some Marshallian scholars (for instance, Dardi 2010; Groenewegen 2005; Raffaelli 2011), we believe it worthwhile to have that material published as a whole. The whole corpus of material gathered together, in fact, affords us a more general and comprehensive view and understanding of Marshall’s reflections on progress – a topic he thought crucial but so complex and changing over time that, ultimately, he

⁶ See e.g., the concluding part of “The Old Generation of Economists and the New”, in the final part of *Industry and Trade*, “Possibilities of the Future”, and the conclusion of his inaugural address, “The Present Position of Economics”, where he stresses the importance “to open up to all the material means of a refined and noble life” (Marshall 1885a: 174; see also 1897a: 311, 1919: 665).

was unable to develop his perceptions properly and publish them in a systematic way. This is why we have decided to work on those notes and reprints and to give a “coherent” structure to the “book that never was” (Groenewegen 2005).

As we explained in the Preface and Acknowledgements above, the Marshall Archives collection consists of several papers, manuscripts and other materials. We have collected and transcribed the notes written by Marshall in his old age specifically for the book on Economic Progress plus some other notes that Marshall was working on and revising for his last volume.

A crucial tool to frame Marshall's idea of progress and accordingly to choose the material to transcribe is given by the several outlines written by Marshall himself for his projected volume. The most comprehensive plan (collected in folder 6.18.2 titled “Functions of Government”) has already been reproduced in Whitaker (1990) and Groenewegen (1995: 2005) and is as follows:

Book I: The Nature of E[conomic] P[rogress]

- I Introductory conditions of E.P.
- II Various tendencies of E.P.
- III Interactions among the tendencies of E.P. Note on diagrams
- IV Sectional interests in E.P.

Book II: Functions & Resources of Government in regard to E.P.

- Introd[uctor]y
- Currency
- Stability of Credit
- Taxes
- I[n]ternational] T[rade] competition
- Commercial Policy

Book III: The Economic Future

- Influences of E.P. on the quality of life
- Retrospect & Prospect
- Ideal & Attainable. Poverty

We have, however, found scattered in other folders several other (although more partial) outlines conceived for that volume as the following one (from folder 5.3.1 titled “Book I: Ways and Means of Economic Progress,

Chapter I Introductory”):

Economic Progress
 Book I: Ways and Means of E[conomic] P[rogress]
 Book II: Functions of Government in Relation to
 E[conomic] P[rogress]
 Book III]: Some Possibilities of the Economic Future
 BOOK I
 Ways and Means of Economic Progress
 Chapter I
 Introductory
 1. Unity in Variety of Economic Progress

and the other one (from folder 5.40 titled “Fragments A[lfred] M[arshall]
 of some interest”):

Book I
 Chapter II
 II National and Sectional Interests in E[conomic]
 P[rogress]

In all the outlines sketched by Marshall, the volume on economic progress is to be divided into a number of books (most often three) and chapters under different titles.

In order to choose the manuscripts to transcribe and publish, we first looked at the several alternative outlines suggested by Marshall and considered the notes more closely connected with his idea of progress⁷. We then organized all these materials following Marshall’s original project but also according to our reflections and considerations on what are the most modern and interesting contents of Marshall’s idea of economic progress. We therefore made a selection of notes structured according to the following plan:

BOOK I
General Tendencies of Economic Progress
 Chapter I
 Nature and Conditions of Economic Progress. The Many in
 the One, the One in the Many

⁷ We have, however, left aside some subjects that, albeit important in Marshall’s reflections on progress, are already largely dealt with in other writings (such as currency and stability of credit in *Money Credit and Commerce*; international competition in *Industry and Trade*).

Chapter II
Relations of Cause and Effect between Man's Character
and His Industrial Conditions
Chapter III
Wages, Efficiency and Wellbeing
Chapter IV
Sectional Interests in Economic Progress

BOOK II
**Functions and Resources of Government Regarding
Economic Progress**

Chapter I
Economic Functions of Government
Chapter II
Taxation
Chapter III
Duties and Preferentials

BOOK III
Possibilities for the Economic Future

Chapter I
Work and Life: Progress and Evolution
Chapter II
Ideal and Attainable
Chapter III
Possibilities of Economic Future

The main topics selected and developed in this volume are related to the nature of progress (Marshall's Book I, here in Part I), the economic future (Marshall's Book III, here in Part III) and the role of Government in connection with the chief characteristics and aspects of the two (Marshall's Book II, here in Part II), which are of critical importance to understand Marshall's main aim of inquiring into the "high theme of economic progress".

Each Part of the present volume is divided into two Sections. Section 1 presents a general critical introduction to the issues that come under focus in Section 2, which reproduces Marshall's manuscript notes. In Section 2, for each manuscript note indication is provided of: a) the folder number as recorded in the Marshall Library Archive catalogue; b) date (when present) and other characterizing aspects of the manuscript. Furthermore, for most of the transcribed material we have added some

footnotes to contextualize and explain Marshall's text better. Text and punctuation in square brackets inserted into Marshall's text are our additions.

PART I

SECTION 1

**WAYS AND MEANS OF ECONOMIC
PROGRESS**

WAYS AND MEANS OF ECONOMIC PROGRESS

“The growth of mankind in numbers, in health and strength, in knowledge, ability, and in richness of character is the end of all our studies” (Marshall, 1920: 139).

“The main concern of economics is with human beings who are impelled ... to change and progress” (Preface to 8th edition, 1920: xv).

Definition of progress

Economic progress is for Marshall something highly complex which involves several different factors and implies both quantitative and qualitative changes. Progress is not identified with a mere increment of wealth, nor does it coincide with material growth, but it involves other and far more important factors; as he underlines in *Principles*: “the production of wealth is but a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental and moral” (1920: 173). This explains why Marshall prefers the terms development or progress rather than growth, which is barely used in his writings. Growth implies a quantitative connotation, while development and progress refer more specifically to a qualitative dimension. True progress unavoidably implies a certain level of material wealth – “a certain minimum of means is necessary for material wellbeing”, he writes (Part I, Section 2, Chapter I, §1) – but this is not its main feature. As underlined by Marshall: “wealth exists only for the benefit of mankind. It cannot be measured adequately in yards or in tons, nor even as equivalent to so many ounces of gold; its true measure lies only in the contribution it makes to human well-being” (fragment in Pigou 1925: 366). Human wellbeing is the true aim of progress: of course, also the concept of wellbeing is complex and multifaceted insofar as it includes material, physical, mental and moral components.

In one of the most representative definitions, Marshall characterizes economic progress thus: “Progress has many sides. It includes development of mental and moral faculties, even when their exercise yields no material gain. The term ‘economic progress’ is narrow and it is sometimes taken to imply merely an increase in man’s command over the material requisites of physical mental and moral well-being, no special

reference being made to the extent to which this command is turned to account in developing the higher life of mankind. When increase of material wealth is united with the solidity of character sufficient to turn it to good account.... True human progress is in the main an advance in capacity for feeling and for thought, yet it cannot be sustained without vigorous enterprise and energy” (Part I, Section 2, Chapter I, §1).

Essentially, progress is based not on increase in material wealth but on the improvement of human faculties and their outcomes, considered in both their economic and social dimensions. Accordingly, Marshall points out that “progress or evolution, industrial and social, is not mere increase or decrease. It is organic growth, chastened and confined and occasionally reversed by the decay of innumerable factors, each of which influences and is influenced by those around it, and every such mutual influence varies with the stages which the respective factors have already reached in their growth.” (1898: 42). Marshall often emphasizes that economic problems are concerned with “organic life-growth”⁸ (1961, II: 63): within his organic view⁹, society (like any other organization) is considered as an organic whole, where each part co-operates with the others for a common outcome: “a body is said to be highly organized when each part has its own work to be performed, when by performing this work it contributes to the well-being of the whole, so that any stopping of this work injures the whole; while, on the other hand, each part depends for its own well-being on the efficient working of the other parts”¹⁰ (Marshall and Paley, 1879: 45–6¹¹; see on this Caldari and

⁸ For Marshall “the Mecca of the economist lies in economic biology” (Preface to 8th edition, 1920: xv): accordingly, his approach is to be considered biological and organic rather than mechanical. See the following footnote.

⁹ Some authors (Boulding, 1981; Niman, 1991; Reisman, 1987) stress Marshall’s organic perspective and count him amongst the forerunners of evolutionary economics (England, 1994; Hirshleifer, 1978; Hodgson, 1988, 1993); other authors instead (England, 1994; Parsons, 1932) deny the relevance of this approach and minimize the role of Marshall’s biological analogies (Mitchell, 1949; Veblen, 1919).

¹⁰ Here the influence of Herbert Spencer’s idea of progress is evident: according to Spencer, evolutionary progress involves a combination of differentiation and integration. As for the first aspect, evolution is considered as “a change from an incoherent homogeneity to a coherent heterogeneity, is displayed equally in the progress of every tribe or nation; and is still going on with increasingly rapidity” ([1890] 1937: 342–3). The second aspect regards every composite organism: “In every more or less separate part of every aggregate, integration has been, or is, in progress” ([1890] 1937: 307). For the relation between Marshall and Spencer see Groenewegen (1995), Hodgson (1993) and Raffaelli (2003).

Nishizawa 2020): its progress involves therefore not only the improvement of each single part but also its synchronous enhancement as a whole.

According to Marshall, “progress is a fluctuation forwards, which has continued persistently, save when weakened by low morale & overthrown by violence” (Part I, Section 2, Chapter I, §1). It is a continuous process which advances through a series of gradual steps, although historically there may also be some crucial steps. But transition from one step to another should be without sudden jumps (“*Natura non facit saltum*”, as he writes in the opening of his *Principles*). The fundamental reason is that changes must go along with something which remains in the main unchanged: progress, in addition to changes, necessarily requires a certain degree of stability (Caldari 2015). This is true, for instance, of each single individual (growing older a person experiences several physical changes although the body as a whole appears to be in a fairly stable shape), and moreover of society and its institutions which, taking longer than individuals, change over time but retain their structure almost unchanged. As had already been underlined in the *Principles*: “though institutions may be changed rapidly; yet if they are to endure, they must be appropriate to man: they cannot retain their stability if they change very much faster than he does. Thus, progress itself increases the urgency of the warning that in the economic world, *Natura non facit saltum*. Progress must be slow” (1920: 249).¹² This aspect can be fully understood by considering the main conditions of progress.

¹¹ See also the chapter on “Industrial organization” in Marshall 1920, where he refers to “a fundamental unity of action between the laws of nature in the physical and in the moral world”, and he discusses on “differentiation and integration” (1920: 241).

¹² “Economic institutions are the products of human nature, and cannot change much faster than human nature changes[...]. Even as human nature is, an infinitely wise, virtuous, and powerful Government could, I will admit, rid us of many of our worst economic evils. But human nature is, unfortunately, to be found in Government as elsewhere; and in consequence Government management, even if perfectly virtuous, is very far from being infinitely wise.” (Marshall 1885a: 173-174).

The conditions of progress

Far from neglecting its importance, Marshall underlines that wealth is necessary insofar as it promotes health¹³ and physical¹⁴, mental, and moral strengths that are “the basis of industrial efficiency, on which the production of material wealth depends”¹⁵ (1920: 193). In his notes on economic progress Marshall devotes a great deal of attention to industrial and labour efficiency; starting from a number of reflections on the characteristics of the British economy and its transformation (Part I, Section 2, Chapter II, §2), he inquires into the factors that may foster industrial efficiency and competitiveness. Free enterprise, initiative and the capacity to tackle uncertainty – considered “an inevitable result of progress, but also a condition necessary for it” (Part I, Section 2, Chapter I, §2) –, “eagerness on the part of [...] experienced m[e]n of business” (Part I, Section 2, Chapter I, §2), are considered among the most important aspects on the production side. References are also made to the role of small size firms and the possible negative effects of advertising, on which Marshall largely dwells in *Industry and Trade* (Caldari 2007). However, in the notes on economic progress, it is the labour side that is more fully analysed: hours of labour, level of wages, productive efficiency, and work conditions (Part I, Section 2, Chapters II and III). This centrality attributed to labour is indeed consistent with the importance attached to the different conditions of progress.

As often underlined in his writings, the most serious problem of that period was poverty, for which Marshall sought some remedy throughout his life, as he once admitted, “I have devoted myself [...] to

¹³ Health is important because “it is needed for activities” (Part I, Section 2, Chapter III, §3). On the role and meaning of “activities”, there is an extensive literature (e.g. Bateman 2006; Parsons 1932; Raffaelli 2003); we will not dwell on it here but only recall their importance in forming human character, which in turn is the main pillar for true progress and is greatly influenced by education, quality of life and work (Caldari 2004, 2006a).

¹⁴ Though the power of sustaining great muscular exertion seems to rest on constitutional strength and other physical conditions, yet it also depends on force of will, and strength of character: as recalled in *Principles*, “this strength of the man himself, this resolution, energy and self-mastery, or in short this ‘vigour’ is the source of all progress” (Marshall 1920: 194; see Nishizawa forthcoming).

¹⁵ The chief importance of material wealth lies in the fact that, when wisely used, it increases health and strength, physical, mental and moral of human race. In this way health and strength (work and life, activities) increase efficiency and productivity, and thus material wealth and economic wellbeing, which in turn increase health and strength, and thus human and moral wellbeing.

the problem of poverty, and [...] very little of my work has been devoted to any inquiry which does not bear on that” (in Keynes 1926: 205). According to him, the poor are people with “poor physique and feeble will, with no enterprise, no courage, no hope and scarcely any self-respect, whom misery drives to work for lower wages than the same work gets in the country” (Marshall 1884: 144–45). He remarks that there is “one waste product, so much more important than all others,” that is called “THE WASTE PRODUCT”: it is the higher abilities of many of the working classes; the latent, the undeveloped, the choked-up and wasted faculties for higher work, that for lack of opportunity have come to nothing” (Marshall 1889: 229). In his early *Lectures to Women* (1873b), he had already underlined that man is “the finest instrument of production in the world”, “the most important productive machine” warning that “we must regard a man as intelligent capital” and “mental and moral capital” (Raffaelli et al. 1995: 98; 117-19)¹⁶.

The only way to improve people’s conditions is to make them “gentlemen”, a word that, in Marshall’s opinion, implies a general amelioration of human “character”. The key element of this approach is given by the conditions in which work has to be performed because - as Marshall rhetorically asks - is it not true that “when we say a man belongs to the working classes we are thinking of the effect that his work produces on him rather than the effect that he produces on his work?” (1873a: 103). Work and labour are therefore given much emphasis in all Marshall’s writings. According to him, “work, in its best sense, the healthy energetic exercise of faculties, is the aim of life, is life itself” and no man “should have any occupation which tends to make him anything else than gentleman” (Marshall 1873a: 115 and 110). Man’s character is moulded by his everyday work; it is “formed by the way in which he uses his faculties in his work”: (Marshall 1920: 2). Work gives “backbone” to man’s character; this is the reason why “work is not a punishment for fault: it is a necessity for [...] progress” (fragment dated 1922, in Pigou 1925: 367).

¹⁶ It was Tiziano Raffaelli (1994) who first underlined the importance of some of Marshall’s early philosophical studies on the mind (especially “Ye Machine”) to understand his approach to economic science and in particular his idea of the growth of knowledge, understood as the product of a mix of routine and innovation, his rejection of the neoclassical concept of *homo oeconomicus* in favour of “a man of flesh and blood”; his view of industrial and social organizations; the use of partial equilibrium analysis; his critical position towards some political and social issues such as socialism, trade unions and bureaucracy; the idea that progress must advance slowly (see on this Caldari 2015 and 2018a).

Marshall pays great attention to the conditions of different occupations: occupations that promote sense of responsibility and mental breadth also ameliorate the character of employees, who can thus become gentlemen. These occupations “demand powers and activities of mind in various kinds; the faculty of maintaining social intercourse with a large number of persons; and, in appearance, at least, the kindly habit of promptly anticipating the feelings of others on minor points, of ready watchfulness to avoid each trivial word or deed that may pain or annoy. These qualities are required for success, and they are therefore prepared in youth by a careful and a long-continued education. Throughout life they are fostered and improved by exercise and by contact with persons who have similar qualities and require them of their associates” (1873a: 103-104). On the contrary, occupations that require many hours of hard work, tire and restrict mental faculties, and take place in unhealthy environments, are absolutely prejudicial to employees. The common feature of the latter kind of occupations (i.e. unskilled work) is that employees (or most of them) are people without any culture and education. In this context Marshall underlines the important role of the state: “It is an urgent social duty, which must be performed at any cost, to put a stop as soon as may be to those conditions of work, which are incompatible with a wholesome life”. Moreover, it is stressed that “Whenever the home of children is such that there is no considerable chance of their growing up to be good citizens, healthy in mind and body, the State is bound as a duty and for self-preservation to intervene. It may improve the home; or close it and take charge of the family. In the rare cases in which, when the wages of any kind of adult male labour are so low that... they would not suffice to maintain a wholesome family life, then it may conceivably be advisable to prohibit such low wages” (Part I, Section 2, Chapter I, §3). Marshall dedicates a great deal of attention to the question of wages (Caldari 2006b; Caldari 2015) and inquiries in depth into the (“limited”) relation between efficiency and remuneration; he underlines that: “the personal efficiency of a worker is a group of qualities inherent in himself. It is likely to have been largely influenced by his surroundings; and when brought to bear in action its potency is dominated by his surroundings; but it is at any one time his own, whatever be his surroundings”; according to Marshall “The elements of which it may be made up are very numerous; and their relative importance varies with the occupation and other circumstances of the individual...”. This implies that “The social value of a man’s efficiency is almost as incapable of measurement as is the aggregate of qualities of which it is composed”. The main reason is that “such a measure *for it*

ignores morbid and other unworthy pleasures; *and it takes no account of the needs of posterity*” (Part I, Section 2, Chapter III, §3).

Education is given much emphasis in all Marshall’s writings, included his notes on economic progress. Education promotes mental progress which allows for improvements in man’s occupations, wages, style of life, productivity and efficiency. It is therefore a crucial element for production, wealth and well-being. Marshall saw the only true and incisive remedy to poverty in education,¹⁷ which was to be considered as something highly complex and multifaceted. As underlined in a note dated 25.6.22, the chief purpose of education is to “to cause mental activities to be thorough. These are: observation, memory, reasoning, imagination, creation. ‘Observation’ is to be taken broadly so as to include every method of acquiring knowledge. Similarly, ‘reasoning’ is to include appropriate arrangement of knowledge in relation to the particular problem in hand. ‘Creation’ is the product of the application of reasoning to and imagination to material supplied by observation and memory” (Part I, Section 2, Chapter III, §3). Education stimulates previously unused human resources and in this way it increases production. It is therefore a form of investment in man, the subtlest instrument of production, and the most important productive machinery¹⁸. Moreover, education helps distributive justice because it raises the wages of unskilled workers: on the one hand it reduces their number, making unskilled work scarce, while on the other it improves the quality of work and increases production. For this reason, as Marshall explains in the above-mentioned early lectures: “the best investment of the present capital of the country is to educate the next generation and make them all gentlemen” (1873b: 106). A low level of education is considered a problem which affects not only the people directly involved but society and the nation as a whole. As underlined in a long note dated 4.9.12 with many pieces pasted from *Principles*: “[...] in

¹⁷ In a letter to Bishop Brooke Foss Westcott (24 January 1900) he writes: “There is only one effective remedy that I know of, and that is not short in its working. It needs patience for the ills of others as well as our own. It is to remove the sources of industrial weakness: to improve the education of home life, and the opportunities for fresh-air joyous play of the young; to keep them longer at school; and to look after them, when their parents are making default, much more paternally than we do. Then the Residuum should be attacked in its strongholds” (Whitaker 1996, II: 263).

¹⁸ Thanks to his view of education as playing an essential part in social (and economic) progress Marshall has been recognized as a forerunner of human capital theory (see Bowman 1990; see also Nishizawa 2002).

the lower ranks of society the evil is great. For the slender means and education of the parents, and comparative weakness of their power of distinctly realizing the future, prevent them from investing capital in the education and training of their children ...*And* this evil is cumulative. The worse fed are the children of one generation, the less will they earn when they grow up, and the less will be their power of providing adequately for the material wants of their children; and so on. And again, 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” (Part I, Section 2, Chapter II, §1).

As we will see more in detail in Part II, this is one of the grounds for state intervention and taxation: “funds [to guarantee a certain level of education] should be obtained by a graduated income tax; from which savings should be exempted: + a property tax which would of course be highly graduated; but a less percentage on funds carried from income to property, than if they had been consumed” (Part I, Section 2, Chapter III, §3). The Whitley Report is mentioned as a means “to prepare the strongest minds among the working classes for leadership in industrial construction” (Part I, Section 2, Chapter I, §1). The Whitley Report led to the establishment of the Joint Industrial Councils and its main purpose was to raise the status and develop the self-respect of the workman by enabling him to form and express well-considered judgements on all aspects of business and its general policy. Accordingly, Joint Industrial Councils and Workmen’s Committees should “include in their aims the better utilization of the knowledge and experience of the workers: settlement of general principles for fixing, paying, and readjusting wages with a view of securing to the workers a share in the increased prosperity of the industry”. In other words, “everyone should contribute, both as an individual and in association with his comrades, to the solution of such business problems as are of the most direct interest to him and to them” (Marshall 1919: 644, see also Nishizawa 2006).

The effects of progress

According to Marshall, progress is cumulative. Among the main consequences of economic progress Marshall mentions: “the growing complexity of business, ...the increased variety and complexity of the technical knowledge needed in many branches of manufacture; & above all ...the increase in the capital needed for an efficient business in almost any industry & trade. ...Moreover, mechanical appliances – among which various methods of multiplying automatically instructions and other

guides to work (both in general & detail) tend to lower the degrading influence of such work relatively to the amount of it that has to be done [...] [whereas] increasing power over nature is being turned to account by telephone &c lessening the amount of dull messenger work &c: and – which is more important – in aiding technical processes of manufacture in supplying necessaries in abundance & comforts in large quantities to nearly all classes of employees.... Transport advance is a chief side of this general progress: & the influence is likely to increase for a century or more.” (Part I, Section 2, Chapter I, §1). All these changes are to be considered eminently positive although they may also have dangerous and perverse effects, especially because “every such change tends to sacrifice the progress of man himself to increase of material enjoyment; and is to be regarded, from some points of view as an evil” (Part I, Section 2, Chapter I, §1). This is why, according to Marshall, “the intervening time must be devoted in great measure to realizing the duties which mankind owe to themselves in regard to raising the quality of human life” (Part I, Section 2, Chapter I, §1).

The quality of life is the true test of progress: a good quality of life requires not only a certain level of income, but also other elements not easily valued in purely economic terms (fresh air, green spaces and so forth)¹⁹. In a letter to James Ward dated September 23, 1900, Marshall explains why he decided to study economics, preferring it to philosophy, ethics, and mathematics: “I spent a year in doubt: always preferring psychology for the pleasures of the chase; but economics grew and grew in practical urgency, not so much in relation to the growth of wealth as to the quality of life” (Whitaker 1996, II :285). Progress means mainly improvement of the quality of life, as underlined in a note dated 23.7.20 and entitled “Some Influences of Economic Progress on the quality of Life” (See Part III, Section 2, Chapter I). If industrial development with its consequent increase in wealth, production, and income is an important factor of progress, it risks enslaving man and his environment to the requirements of production, and therefore it may worsen the quality of life, whose betterment should be the main aim of the human race (Caldari 2004). Once again, Marshall finds the solution to this menace in education: “But on the other hand, the dissemination of sound school education is enabling the children even of unskilled labourers to have some chance of rising to work that evokes faculties of a rather higher quality than those for which his work gave exercise. The picture of the future, which such considerations suggest has many dark blotches: but

¹⁹ See below Part III.

they are such as can be mitigated by sustained effort” (Part I, Section 2, Chapter I, §1).

Among the effects produced by progress Marshall refers to the fact that it “is thinning many of the lines of division between artisans in different industries” (Part I, Section 2, Chapter I, §1) and reducing the divisions among different sectional interests (vertical and horizontal strata). Social stratification is deeply rooted in human nature but progress is attenuating it in so far as the most important sectional interests “from a social point of view are those which are based on degrees of physical and mental faculty” (Part I, Section 2, Chapter IV, §1) because “the spread of education, the increased ease and cheapness of travel, changes in the technique of production and other causes have mitigated many of those divisions between different ranks of industry which pervaded even the western world a century ago, and were in some degree akin to divisions of caste” (Part I, Section 2, Chapter I, §1).

Sectional interests and social stratification are the subject matter of many Marshallian reflections²⁰ and are often compared to the caste system, which he severely criticizes, especially for its rigidity and closure to change²¹. Of the sectional interests, it is those represented by the Trade Unions that Marshall examined most thoroughly as from his early writings (Caldari 2006b and 2015; Whitaker 1975). Trade unions are considered

²⁰ Marshall expresses his opinions on the “General influences of economic progress” in Chapter XII and on “Progress in relation to standards of life” in Chapter XIII of Book VI of *Principles*. He notes that “Progress is fast improving the condition of the great body of the working classes” and that “the earnings of artisans are increasing faster than those of the professional classes, and the wages of healthy and vigorous unskilled labourers are increasing faster even than those of average artisan” (1920: 687); moreover he underlines that from the time of Political arithmetic in the 17th century onwards there is “a constant and nearly steady increase” in the amount of accumulated wealth per head of the population: “Man ...has acquired a greater ‘telescopic’ faculty” (1920: 680). In his view, “nearly all of them [sectional interests] are changing their character and becoming increasingly plastic: but the chief change is the assimilation of the training, and consequently the capacity, of the working classes generally to those of the well-to-do. The spread of education is rapidly effacing those distinction of mind and character between different social strata..... We were approaching to conditionsunder which the relations between the various industrial strata of a civilized nation are being based on reason, rather than tradition” (1919: 4-5; see also Nishizawa forthcoming).

²¹ As clarified (Raffaelli 2003), Marshall’s criticism of castes has its roots in his view of evolution as developed in one of his early philosophical writings, *Ye Machine*.

fundamental in educating men, giving them self-respect (Part I, Section 2, Chapter IV, §2) and an important *esprit de corps*, accustoming them to responsibility and, in brief, in providing an essential set of rules which constitute the backbone of a social community. However, he is highly critical of the trade unions when they impose rigid rules and are closed to change; to that extent, they are considered an obstacle to progress. In the Fifth and final Report of the Royal Commission on Labour 1894, Marshall underlines that: “Trade Unions have a growing tendency to interfere with details of business, and so to take away that concentration of command which is necessary for successful management, and hamper employers in carrying on their business according to the methods which they believed to be best [...] [they] often misjudge the true position of affairs and [...] discourage enterprise [...]. Though organisations may tend to diminish the frequency of industrial conflicts, they extend their range [...]. Workmen with a powerful union behind them are apt to become too confident as to their position, and to think that they cannot be discharged or punished, and so likely to become indolent, careless or insubordinate [...] The action of trade unions has a tendency to bring about a uniformity of wages and hours, both as between individual workmen and as between different localities [...]. They are reducing workmen to a dead level of enterprise, discouraging work of more than average merit, and taking away from individual workmen the motive power of ambition and self-interest [...] They injure trade by rigidity of their rules” (Groenewegen 1996: 93-94). A part of this Report was amended and developed for the volume on economic progress; here it is transcribed below in Section 2, Chapter IV, §2. In these pages Marshall dwells upon the relationship between particular sectional interests such as those pursued by trade unions (but also in any form of combination) and the general interest of the community as a whole.²²

²² In a letter to Edward Caird (22 October 1897) Marshall maintains: “I am wholly a trade-unionist of the old stamp. For the sake of trade unionism, & for that of labour as a whole I hope that the employers will so far get the better of the leaders of this modern unionism, that the rank & file of the workers will get to see the futility as well as the selfishness of the policy, which their new leaders are pursuing. Everywhere the tried men who had made trade-unionism the greatest of England’s glories, have been pushed aside — sometimes very cruelly. For a time the Engineers adhered to moderate & unselfish courses. But lately they have used their grand prestige, I hold, for England’s ill.” He added: “If the men shd...win, & I were an engineering employer, I would sell my works for anything I could get & emigrate to America” (Whitaker 1996, II: 203-4). In another letter to Caird (3 December 1897), he writes: “This is the crisis of our industry. ...I have often said

Marshall is especially opposed to the standard wage policy, widely fostered by trade unions. According to Marshall, trade unions show their “anti-social side” since the maintenance of a standard wage is “responsible for the result that some tens of thousands of Englishmen are doing unskilled work at a low wage in order that a small group of people, by cruel apprenticeship regulations etc., may sustain their standard rate a few shillings higher than it otherwise would have been” (Letter to Wescott 1899 in Whitaker 1996, II: 261). Marshall distinguishes different uses of the so-called “Common Rule” (already in *Principles* but see Part I; Section 2, Chapter I, §2; Part I, Section 2, Chapter IV, §3), “the chief instrument by which trade unions have obtained their power of negotiating on even term with their employers” (Marshall 1920: 704). The Rule could be “socially beneficial” (Marshall 1920: 706) when used for a true standardization of work and wages but a danger when used for a false standardization, since it tends to “force employers to put relatively inefficient workers in the same class for payment as more efficient workers” (Marshall 1920: 706). Marshall is even more critical towards a Uniform National Minimum (see Part I; Section 2, Chapter IV, §3), which some suggested as a remedy against strikes and conflicts between employers and employees²³. He also critically evaluates the trade unions’ position on standardization (Part I, Section 2, Chapter IV, §3), and

that T.U.’s are a greater glory to England than her wealth. But I thought then of T.U.’s in which the minority, who wanted to compel others to put as little work as possible into the hour, were overruled. Latterly they have, I fear, completely dominated the Engineers’ Union. I want these people to be beaten at all costs: the complete destruction of Unionism would be as heavy a price as it is possible to conceive: but I think not too high a price” (Whitaker 1996, II: 214). Marshall dwells on “this ‘Achilles’ heel’ of Britain’s industries” in the final chapter of *Industry and Trade* (1919: 641 footnote; see Nishizawa 2001).

²³ According to Marshall, a minimum rate “would very greatly increase the evils without materially increasing the benefits of collective bargaining as to wages”. The main difficulty with a minimum wage was the risk it could be set too high, as Marshall put it: “It does harm when it is so high that (...) a considerable number of those who seek employment either cannot make themselves worth it at all at that wage, or can do so only by working harder than is good for them” (Letter to *Daily Chronicle* 1912 in Whitaker 1996, III: 293). A local minimum rate was less injurious because of a “geographical sorting” that enables the migration of workers of different capacities and strength. Anticipating the modern concept of “regional wage differentials”, Marshall emphasizes that each region is characterized by peculiar aspects (climate, soil, traditions) and a particular cost of living to be taken into account in fixing the level of wages.

especially the opinion expressed by the Webbs²⁴. Marshall examined the issue of standardization in particularly great depth, especially in its connection with large scale production, advertising (Part I, Section 2, Chapter II, §3) and scientific management (Marshall 1919; see Caldari 2007; Fujii 2006; Whitaker 1999).

²⁴ On the Marshall-Webbs relation, see Groenewegen 1996; McWilliams Tullberg 1975.

SECTION 2

MARSHALL'S VOLUME ON PROGRESS

BOOK I

**GENERAL TENDENCIES OF ECONOMIC
PROGRESS**

CHAPTER I

NATURE AND CONDITIONS OF ECONOMIC PROGRESS. THE MANY IN THE ONE, THE ONE IN THE MANY

1. The Nature of Economic Progress

The incoming tide of the sea comes by waves i.e. by fluctuations: and the tide is carried over by the waves. A short view does not suffice to decide how far the rise of the tide can reach: an estimate of the future is based on the supposition that some forward movements will continue for long: in short that there will be progress.

Progress is a fluctuation forwards, which has continued persistently, save when weakened by low morale & overthrown by violence. There are but few barbarians left and even vast hordes of them would be powerless against modern munitions of war. But Rome's fall began at home: Nevertheless we may hope that Progress will continue¹.

[undated]²⁵

1. Unity in variety of economic progress

Progress has many sides. It includes developments of mental and moral faculties, even when their exercise yields no material gain. The term "economic progress" is narrow: and it is sometimes²⁶ taken to imply

²⁵ This piece was written on a blue sheet of paper, undated, although the handwriting seems to belong to a rather old Marshall. The beginning of the text was previously different and subsequently rewritten. In the old version the text started with the following words: "*In a far view a study of p[ast], p1[present] and f[uture] is a study of long period fluctuations. The past and the present move towards the future*", and closed with "Try to make Progress Book V".

²⁶ This word replaced the word "often".

merely an increase in man's command over the material requisites of physical mental and moral wellbeing; no special reference being made to the extent to which this command is turned to account in developing the higher life of mankind. When increase of material wealth is united with solidity of character sufficient to turn it to good account. It is therefore not altogether to be regretted that, in the modern age, war is very expensive: no nation can now carry out great military operations, unless its industries are large and efficient. Great advance in material wellbeing is attainable only by those nations, whose industries are progressive, and whose men are strong in character and in action.

True human progress is in the main an advance in capacity for feeling and for thought, yet it cannot be sustained without vigorous enterprise and energy.

A certain minimum of means is necessary for material wellbeing. Something more than that minimum is necessary for a high class life; and, speaking generally, it may be said that the quality of life is apt to be lowered by toil so severe as to absorb almost the whole of the workers' energies.

A little restful thought is needed by all who respect themselves. Fatigue that is inconsistent with mental activity tends to lower the quality of life: sometimes indeed it is endured for high purpose, so that the net result is a gain: but speaking generally, it is socially wasteful. It is of course here supposed that leisure is spent in re-creation of wearied faculty: leisure devoted to profitless destruction of nervous strength is an evil. Economic studies assume provisionally that effort is not excessive; inquire how far existing social order tends to direct effort to the uses most beneficial to mankind: and thus prepares the way for policies that will tend to increase efficiency.

Speaking generally, it may be said that those races, whose workers have pioneered new paths in industry, have known how to defend their homes and their workshops against military violence.

2. A decline in importance of mere manual dexterity has been accompanied by an increase in the breadth of the demand for intelligent alertness in the control of costly plant.

Economic progress is thinning many of the lines of division between artisans in different industries. The early difficulties of agricultural labourers were in some respects similar to those of an inferior caste: and, under the rule of caste, discords between sectional and national interests may be deep and lasting. But the spread of education, the increased ease and cheapness of travel, changes in the technique of production and other

causes have mitigated many of those divisions between different ranks of industry which pervaded even the western world a century ago, and were in some degree akin to divisions of caste.

No doubt the number of distinct occupations is growing rapidly. A hard-wood carpenter does not readily work in soft-wood. A man experienced in making staircases, and able to earn very high wages by piecework on them, will not willingly engage himself for other work.

A large furniture factory may include a score of groups of cabinet-makers each with its own specialized experience and knack. If a member of one of these groups is thrown out of work, he may go through considerable privations before he pushes his way into another group: for he would not expect to make full wages there easily.

Thus it is general rule, subject indeed to considerable exceptions²⁷, that a man's wage for an hour's work will purchase the product of about an hour's work of another man on the same industrial level as himself, when deductions have been made for cost of material; for use of machinery and other plant; for the profits of the employer or organizer of the business.

The power of the water-mill seems to have been used more or less, for grinding grain and other monotonous work very long before it was generally applied in the textile industries. Weaving with good yarn yielded easily to wholesale treatment; but direct manual aid was long needed for much of the work of spinning.

3. Some causes of the continuous increase in the amount of labour devoted to making implements of production relatively to that devoted directly to the production of food and other necessaries of life.

In early times the industrial experiences of each age were handed down in concrete form by the authority of the older crafts-men and others. Their practice was in the main such as they had received when young from their own elders; though it was liable to be modified, more or less consciously, by their own experience, and by suggestions from some of the bolder thinkers among them. Much industrial work was done under the authority of monasteries: great advances were made in the later days of the Roman empire, and in Byzantium: and though "Gothic" architecture is perhaps the noblest that the world has seen, yet the progress of the industrial arts seems to have been generally slow for a very long while after the decay of

²⁷ The following passage on "exceptions" was deleted: "The exceptions are no doubt still considerable, and, like the mountains on the surface of the globe, they loom large when seem near at hand; but they are in fact small relatively to those large areas that are nearly level."

the Roman Empire.

Learning and art were always fostered in some free cities and monasteries: but the agricultural population generally contributed little to intellectual progress until successive improvements in the resources of transport by land had gone a long way towards assimilating the thoughts of town and country. Italy, the Low Countries, France and England gradually developed much highly trained faculty of imagination, thought: and knowledge increased in breadth and depth, and in productive energy.

But the progress of knowledge long remained slow: there were few considerable improvements in man's control over the power of nature, until the power of falling water was turned to good account in England and elsewhere: meanwhile however the printing press had prepared the way for great and rapid increase and consolidations of knowledge. Later on methods and resources of manufacture and of transport were transformed, first by the direct application of steam power derived from coal; and afterwards by the rise of coal as the generator of electricity [that] transfers energy from one place to another; and applies it in quantities as minute as the delicate touch of an artist's hand, and as powerful enough for the heaviest tasks of transport and manufacture and agriculture.

4. Economic progress depends in great measure on the courage as well as the sound judgment with which business risks are taken. Recent developments of business, especially the form of joint stock undertakings, are mitigating some of these risks.

We pass to some inferences, which may be drawn from the preceding observations. It appears that progress generally requires a continued increase, more rapid than in proportion to the growth of population, in the stock of material appliances for production and trade; that is of material capital. This is a necessary condition of a further lightening of the fatigue of manual labour; and (in the special case of Britain) of the maintenance of large imports of those necessaries of life, which her own narrow area is unable to supply in sufficient quantities.

In the past capital has been accumulated almost exclusively by the middle and wealthier classes: the manual labour classes have inherited the tradition that the plant and material needed for their work will be supplied: they are not even yet fully awakened to the fact, that the great rate at which their material condition has improved recently, has been rendered possible by provisions to which no considerable contribution has been made either by them or by the State.

The ability to handle difficult practical problems with foresight and

imagination, with courage resolution and ability has never been the exclusive property of any stratum of the people. Many of the most capable rulers in Asia, as well as in Europe, have come from the lower ranks of the people: and in our own time the American working classes have perhaps contributed largely to the supply of the best business genius of the world from the whole population of any other country.

That broad movement, of which the Whitley Report is at once a chief product and a chief promoter, is working in union with enlarged educational opportunities, to prepare the strongest minds among the working classes for leadership in industrial construction. Faculties, which have hitherto formed their chief opportunities in the masterly discussion of national and sectional policies, may be given to the quiet mastery of recondite problems of business; and especially to the discrimination between those risks in regard to technique and trade which the capable business man would face without hesitation, and those on which he would not enter without long and careful study.²⁹

Unfortunately difficulties of this kind are apt to be underrated, if not wholly overlooked, by ardent social reformers. They recognize the necessity for capital – that can be annexed by the State and handed over as the basis of self-governed businesses: and they assume, with some measure of justice, that the workers themselves will be able to supply a good deal of faculty for routine management. But they do not seem to recognize that industrial progress is dependent on the right selection of ventures: they do not make provision for the control by the State of the action of the workers in regard to those risks. If no considerable risks are taken, there will be little or no progress: if considerable risks are taken at the expense of the State by men who have no special genius for handling them, and no special training in regard to them, the State will lose much of its capital. Meanwhile those who have the faculties needed for the higher work of business are likely to have escaped, to seek any capital over which they may have control in other lands³⁰.

The private ownership of capital is not without its disadvantages. Scarcely any thoughtful person would expect it to prevail in a world in which everyone was absolutely unselfish and willing to do his best for the public weal without thought for his own interests; inclined to underrate rather

²⁹ Paragraph indicated with heading “B”. Written in pencil above the text “Whitley Report explain”.

³⁰ [Marshall’s footnote:] “These considerations are developed a little in Appendix 0.2 with special reference to a scheme for putting industry under the control of National Guilds, which has been set out with high literary skill and an attractive naivety by Mr G.D.H. Cole”.

than overrate his own abilities, and prompt to follow the guidance of anyone whose judgment was better than his. Such a world would be free from the two evils of self-complacency and poverty. But it might be rather dull, and perhaps even a little stagnant in spite of the best intentions.³¹

But even in this imperfect world the increase of private capital renders greater services in the aggregate to the many who do not own it than to the few who do. Its owners have something of exceptional social prestige, as well as of command over their comforts and luxuries of life. But the multitude, who do not own it, reap much the greater part of the benefits which it confers by enabling a given amount of human effort to produce many times, in some cases hundreds of times, as much result as could have been attained by primitive methods³² ii.

[undated]³³

[Illustrating the main features of progress in the modern age, Marshall lists the following:]

A. Similar causes produce similar results in the modern age: for human nature remains ever the same. But they work along different lines, and the continuity of the present with the past is somewhat obscured.

It is true also that the difficulties of rising to posts of complete self-responsibility on a small scale are intensified by the growing complexity of business; by the increased variety and complexity of the technical knowledge needed in many branches of manufacture; & above all by the increase in the capital needed for an efficient business in almost any industry & trade. But on the other hand modern elastic J. S. Company law gives many facilities for the collective aid of small capitals. And:- what is in some respects more important, it throws an ever increasing part of the management of business on salaried officials, many of whom have risen from below, in spite of the pull which a relative of a director often has. On the whole equality of opportunity in business increases: and (on the whole) this means increase in the opportunities for turning the faculties inherent in any child to good use in the service of himself, and of the country.

B. Moreover mechanical appliances – among which various methods of multiplying automatically instructions and other guides to work (both in

³¹ Paragraph indicated with heading “E”.

³² Paragraph indicated with heading “F”.

³³ Text written on a number of small folios, undated but numbered, with a numbering modified several times with different pens and pencils. This part was conceived of for “Book I Ways and means of economic progress. Chapter I. Introductory”.

general & detail) tend to lower the degrading influence of such work relatively to the amount of it that has to be done – tho' not absolutely.

Also increasing power over nature is being turned to account by telephone &c lessening the amount of dull messenger work &c: and – which is more important – in aiding technical processes of manufacture in supplying necessaries in abundance & comforts in large quantities to nearly all classes of employees. And, especially when double shifts are worked, machinery sets free human energy while increasing the supply of necessaries &c to a rapidly growing population ///

D³⁴. Transport advance is a chief side of this general progress: & the influence is likely to increase for a century or more. But if the present rapid growth of the world's population increases this effect will soon dwindle, & it may in the course of a couple of centuries nearly come to this that the localization of manufactures may aid the conversion of raw material into finished products. Beyond this it cannot go: & one or two centuries may find the pressure of population on the resources of the world for raising raw produce so great that Malthus' premature fears may be at last fully realized.

E. Therefore the intervening time must be devoted in great measure to realizing the duties which mankind owe to themselves in regard to raising the quality of human life. And the present generation has the urgent duty of making the best of the large & generous opportunities – which must necessarily soon decline – which technical advances in transport offer to man in his attempt to rise above conditions of work in which the welfare of man is sacrificed to the production of things. It must bear in mind the sacredness of the opportunities for well used leisure which are open to mankind in the 20th century & perhaps will be open in the 21st, but not much longer.

F. It must scoff at all expenditure which is for display & therefore inherently vulgar. It must devote resources without stint to such education as really draws out (educates) high faculties. It must regard leisure as sacred & to be piously used in the recreation and development of high and fine faculties. These ends it must pursue with the resolution and the practical force that belongs to the genius of a great business man; & with the fervour of aspiration that belongs to the saint. Thus and thus only can the possibilities of the future of mankind be fully realizedⁱⁱⁱ.

[undated]³⁵

³⁴ Paragraph C is missing.

³⁵ The text was written on two large folios and their reverse, very much amended, numbered (3-4-5-7).

Every such change tends to sacrifice the progress of man himself to increase of material enjoyment; and is to be regarded, from some points of view as an evil. But on the other hand, the dissemination of sound school education is enabling the children even of unskilled labourers to have some chance of rising to work that evokes faculties of a rather higher quality than those for which his work gave exercise. The picture of the future, which such considerations suggest has many dark blotches: but they are such as can be mitigated by sustained effort. In so far as a source of comfortable reflection to some well-to-do people has lain in comparisons, to their own advantage, of their own faculties and those of their children with those of the manual labour classes, they may wish that they had been born in an earlier age, in which social inequalities were more sharply marked. On the other hand, some may find source for joy in the hope that ere long the phrase "the working classes" will have passed away: for it will be less disgraceful to be poor than to live in luxury and shun hard work[.]

Many of the best strains in national character owe much of their strength to people the narrowness of whose incomes compels them often to economize in regard to food & other physical gratifications with more close observance than is enforced on the most highly paid artisans; and who yet are highly sensitive to the finer amenities of life. And it is true that some tendencies of trade-union strategy make for bringing the remunerations of all artisans in the same "trade" as near as may be to equality: and that this influence tends to slacken the energies of all but those few men, who are strong enough to be strengthened by the opposition of difficulties. Therefore, although the work of the skilled artisans is often more educative in some respects than that of many of those in the "middle class": yet there are large sources of latent human energy; and often much high idealistic discipline in the lives of middle-class families whose incomes do not exceed those of the best-paid artisans. For indeed the desire to obtain great wealth has seldom much to do with the material enjoyments that wealth will buy. If a man cares for such things much, his character is generally too limp for the hard work; and if he works very hard, he is likely to prefer simple and inexpensive food, and to be bored by the ceremonials of society. He seeks to increase his wealth partly from habit, but more because he rejoices in the *éclat* which it confers on his wife and children. Even this motive however is thin in comparison with the desire to prove himself superior to others in the power of doing difficult things.

The instinct of the chase and the passion for victory supply the motive

power to much that is greatest in constructive achievement, and much that is most cruel and unscrupulous in the destruction of rivals^{iv}.
*[undated]*³⁶

2. Conditions and Motives of Economic Progress

[Reflecting on the relation between some features of industrial efficiency and national progress, Marshall underlines the following points:]

A Is it a ground for satisfaction that the relative proportions of industries in a country are remaining unchanged? Yes. So far as in consequence no expectations are falsified. No, so far as rigidity implies torpor, and generates routine habits of life.

Is uncertainty an evil? Unconditionally yes if the perfection of life is Nirvana. But if not, then it is partly an evil and partly a good. If violent and ceaseless it is an evil. But some uncertainty seems not only to be an inevitable result of progress, but also a condition necessary for it. If the proprietor of a fishing lake could guarantee one good bite exactly as the clock struck each half hour, I am not sure he would get much custom.

B. When a particular industry increases its exports fast, that is always a sign of increasing efficiency relatively to similar industries in other countries or to other industries at home; unless (which is not probable) it be due to a relative fall of wages in that trade (relative, that is, either to other home industries, or to similar foreign industries). It may be due to relatively progressive force of natural advantages; as e.g. US, and Germany owe part of their steel exports to their opening up of new steel supplies and to our exhaustion of hematite supplies.

But by itself it is not an indication of relative national progress. One reason why we are exporting increased amounts of iron products that carry a great deal of labour to the ton is that crude steel is relatively rising with us owing to this scarcity of ores.

C But on the other hand an increase in all round efficiency, without any change in relative efficiency, will increase a country's exports all round. And if we know that its foreign trade has increased, and have no special

³⁶ This text was written on a number of small white folios, undated. The text continues with some more lines as follows (although it was deleted by Marshall): "*This passion for victory grows with each success: the history of the struggle for dominion in their attempt to monopolizing, or at least dominating a new field of markets near at hand, is [...]*".

reason for thinking that this increase is due to relative retrogression of its backward industries more than to relative progress of its advanced industries (relative in both these cases means, as compared with other countries) then we may infer that it is a slight *primâ facie* evidence of national progress.

D When therefore we hear that some particular exports are increasing (i.e. that domestic capital and labour are being diverted to the corresponding industries from others which work for export or home consumption, or both), there is cause for a little greater satisfaction than dissatisfaction: so far as the country as a whole is concerned. On grounds A and C.

If on the other hand we hear that some particular exports are diminishing that is a ground for some small apprehension under head C: but under head A, there is the same cause for satisfaction as in the preceding case^v.

[dated 13.11. 03]³⁷

Business motives: their nature and their plasticity

It would no doubt be a grave blunder so to hamper the free enterprise of business men, as to materially lessen their efficiency in organizing the resources of production. But races at a University are not rowed with the less eagerness, because success in them is its own reward: and if efficiency in business could be judged by mere inspection, many businessmen would be eager in their work even if their reward depended but little on their efficiency. It is however true that, while eagerness will not enable an elderly man to win in a well contested running race; eagerness on the part of an experienced man of business is likely to add much more to the advance of material wellbeing than similar eagerness could have done when his experiences were still narrow, and his resources were probably small. This contrast between old age and youth explains, and partly justifies[.]

The existence of grave inequalities of wealth is an integral part of the progress of mankind, as we know it. Another world may be more prosperous than our own, without any similar inequalities. Everyone in it may be intent on the advance of general well-being, and care but little how much of it falls to his share: just as a high-minded cricketer in a match between two schools or Universities, may rejoice almost equally in the addition of some runs to the score of his side, whether the runs were got off his bat or another's. But in business each man is apt to derive satisfaction from every gain achieved honourably by himself, with little

³⁷ Text written in red ink, on white folios, numbered pp. 1-4.

regard for the fortunes of those at whose expense it is made. Of course he scorns to gain by unfair methods; just as a cricketer or a foot-ball player commonly does, even in the absence of an umpire: but when the course of trade sends additional gains into his purse, he is seldom disturbed by the reflection that some one else's purse may be³⁸ made lighter by the same event³⁹[.]

The influences exerted by legal enactments on the methods of business must of course be slow and there are many matters in which public opinion can exercise its influence more quickly and effectively by a direct route, than by the indirect route of first altering the law. For all the great changes which our own age has seen in the relative proportions of different economic forces, there are none more important than the increase in the area from which public opinion collects itself, and in the force, which it bears directly upon economic issues.

*In this connection it is to be noted that the resources for combined action in regard to broad issues, which the manual labour classes possess now, are greatly in excess of those were possessed a few generations ago by the well-to-do classes: opportunities for basing policy on knowledge of labour conditions throughout the whole country, and even beyond, have increased and are increasing rapidly. Consequently national – and in some cases, even international – plans of action are now carefully discussed by the more thoughtful members of each group of operatives, and especially by leaders of working class opinion. Thus there has been an almost continuous increase in the solidity of the reasoning of working class reasoning in economic matters. There are indeed speakers & writers among manual workers, as there are in every other class, who speak strongly merely because their powers of thinking are weak. But the first class artisan of the present time often has a better-trained mind and a more cautious judgment than were commonly found among the well-to-do classes two generations ago^{vi}.
[undated]⁴⁰*

³⁸ Deleted: “is likely to be”.

³⁹ [Marshall's footnote:] “This class of consideration caused some able philosophers and Churchmen to despise trade, under the mistaken notion that no one could gain in it except by another's loss: whereas in fact in ordinary trade each man receives something that is of better service to him than that which he gives up. It is however true that mere acuteness, combined perhaps with a little unfair practice, may enable one side to increase his own share of the gain at the other's expense”.

⁴⁰ Text written on white folios, much amended. Close to the title is added in the margin: “Importance of conserving fresh initiative in spite of growth of J.S [...]”

3. Mental Progress: its ways and means

Education[.] its chief purpose is to cause mental activities to be thorough. These in order of time are: observation, memory, reasoning, imagination, creation.

“Observation” is to be taken broadly so as to include every method of acquiring knowledge.

Similarly “reasoning” is to include appropriate arrangement of knowledge in relation to the particular problem in hand.

“Creation” is the product of the application of reasoning to and imagination to material supplied by observation and memory^{vii}.

[dated 25.6.22]⁴¹

Practical Possibilities [related to education:]

All to have good early school education[.]

All those (A) who can profit by it, to have a (middle-age) 14-16 school education

(A¹) The rest of the children to be set to mechanical work, including writing, type-writing etc.

(B) those who profit by (A) to [be] classified according to their special character of their abilities and tastes into

(C₁), constructive science studies chemistry, electricity, biological sciences including some abstract sciences & especially pure mathematics.

(C₂) X Literary pursuits: but they should not be carried far in school, as distinguished from private study, save by a relatively few of exceptional literary or linguistic faculty

(C₃) Art: the class should be small. An artistic element should be present, as a secondary and variative element in all educations.

But only exceptional natural genius for art should receive special

methods”. A part of the text is a pasted print clipping from the article “Some Aspects of Competition” (Journal of Royal Statistical Society, vol. 53(4) 1890) p. 438 on which Marshall made some handwritten alterations. The printed text is given, here, in plain type. The beginning of the printed text, deleted by Marshall, read: “But at best the action of the law must be slow, cumbrous, and inelastic, and therefore ineffective. And [...]”.

⁴¹ Text written on a blue folio, not numbered. It is titled “Mental Progress: its ways and means”.

privileges.

For the total number of people whose artistic work is of considerable value to others is small: those who enjoy artistic efforts, but have no special faculty for them should receive moderate assistance by various kinds of education: but not at very considerable expense to the public.

Insurance to be compulsory on all but the very poorest.

Funds should be obtained by a graduated income tax; from which savings should be exempted:

+ a property tax which would of course be highly graduated; but a less percentage on funds carried from income to property, than if they had been consumed^{viii}.

[dated August 1920] ⁴²

As men become old – e.g. Burns⁴³ – they become “extinct volcanoes” in appearance: but when the sparks are flying fast from the blacksmith’s fire, he closes the vent with damp coal, and the volcano dies down, while the fire within gets to a purer white heat.

Again, “The thoughts of men are widened with the pro[c]ess⁴⁴ of the suns”⁴⁵ and for that very reason the expressions of their thoughts are narrowed. No doubt the extension which is attainable with a given intensity increases from generation to generation: but the progress of each serious man’s life brings a narrowing of the things on which he will speak confidently, partly for the reason that he brings a greater breadth of judgment to bear[.]

Again. A new idea is first silly, then dangerous, then obvious and commonplace; partly because it is better understood, more familiar and less suggestive of unknown perils, but largely also because it has been transformed. Thus local minima of wages, introduced optionally, and adjusted by those most interested to particular conditions, differ in

⁴² Text written on white folios, numbered pages 1-3; main text written in black pen with some additions in blue pencil. In the margin of the first page is written in blue pencil: “last § of last chapter on ideals” and in black pen “St. Martin August 1920”. For the holidays spent in South Tyrol, see Paley Marshall, 1947 and Groenewegen 1995, Ch. 7.

⁴³ Reference to Robert Burns and to his poem, written in 1787, entitled “To Alexander Cunningham”.

⁴⁴ The word “process” in the poem was erroneously transcribed by Marshall as “progress”.

⁴⁵ Quotation from the poem “Locksley Hall”, written by Alfred Tennyson in 1835 and published in 1842.

substance as well as in detail from Procrustean⁴⁶ rules. That which is impracticable or intolerant is gradually agreed at; often almost unconsciously: and the result is perhaps not very forcible, but anyhow consistent with common sense and therefore capable of being described as common place⁴⁷.
 [dated 27/2/08]⁴⁷

National interest in raising children from a low grade to a higher

It is an urgent social duty, which must be performed at any cost, to put a stop as soon as may be to those conditions of work, which are incompatible with a wholesome life. If such a reform were combined with kindly but firm discipline for those who needed it, the net cost to society of the change would probably not be very great. In the long run it would probably benefit the nation as a whole even from a purely material point of view and would be a good national investment. Whenever the home of children is such that there is no considerable chance of their growing up to be good citizens, healthy in mind and body, the State is bound as a duty and for self-preservation to intervene. It may improve the home; or close it, and take charge of the family. In the rare cases in which when the wages of any kind of adult male labour are so low that, even when supplemented by the utmost earnings that wife and children are likely to bring in, they would not suffice to maintain a wholesome family life, then it may conceivably be advisable to prohibit such low wages. But if it be so, the reason is that the smallness of the family income (not that of the income of a single member of it) will force the children downwards: it remains true that when the minimum wage is regarded from the point of view of national duty, and not that of trade union strategy, the unit is to be sought in the earnings of the family and not of the individual. In this case again, while, recognizing that trade unions make for social progress, we must recollect that that strategy is often all but a means to an end: we must take thought lest too narrow a devotion to the efficiency of the means should largely prejudice the social aims which they subserve. And here a special danger arises from what appears to be an incorrect analysis of economic "parasitism".

Of course every occupation is largely recruited from people whose nurture

⁴⁶ Reference is to the giant "Procrustes" of the Greek mythology and the tortures he practiced.

⁴⁷ Text written on white folios, numbered pages 1-2. Both the folios are titled "Progress" (not transcribed here).

and training has been defrayed by other occupations: the sons of carpenters may work on steel or cotton. But in so far as there is a fairly even give and take, no question of parasitism arises: a parasitic occupation is one which takes more than it gives in this way.

Parasitism has an ill sounding name: but it is not necessarily antisocial. When fine roses are grafted on standards of common bias, the parasites are a gain to the garden. And when the ablest and most enterprising children of agricultural labourers rise up to important posts in manufacture the result is a national gain; even though it be true that the poorer industry has had to bear part of the expense of rearing those whose work bears fruit in higher occupations; and which are to that extent parasitic. Similarly from a cosmopolitan point of view there is social gain in the emigration of many of the more sturdy and enterprising young men and women emigrat[ing] from old countries to new. And the agricultural and other industries of these countries in so far as these industries prosper by utilizing workers whose cost of rearing and training has been defrayed by old countries, are parasitic; but this parasitism is from a cosmopolitan point of view beneficent. A more difficult case arises when young men of exceptional ability are selected for important work in countries the climate of which (at all events in the present state of science) is unsuitable to white men so that they return home generally in feeble health, their occupations are parasitic in a rather malignant way, the parasitism of these occupations is a distinct burden to the nation which sends them out. But probably the services which these men render to the world in educating a backward people on western lines are so important, that in a broad cosmopolitan point of view these parasitic occupations are a social gain.

On the other hand, when a highly paid artisan instead of returning to the community through his son the cost of his own expensive training, spends his high wages in self indulgence, and makes his son earn his own keep by running errands for a shopkeeper, the parasitic occupation of that lad is a social detriment: for it does not fit him for any important work, when his several days are over: and the high wages of the father have yielded back to the nation less than a full return. And again, when strong agricultural lads drift into unhealthy urban occupations and lose their vigour, without contributing anything of importance to national efficiency, the development of these parasitic urban industries is detrimental to the nation even though they yield rather higher wages than could be got in agriculture.

In these instances it is supposed that a parasitic occupation lies under suspicion of habitually utilizing vital force nurtured at the expense of other occupations; and thus preying on them: and that its defence, if any, is that

the vital force thus annexed is turned to a higher social use than if it had been left to the occupation in which it was reared. But the dyslogistic use of the term “parasitic” in pleas for an extreme enforcement of the Common Rule habitually – though not always – suggests that the harm of economic parasitism lies in the injury done to, and not by, that occupation which having contributed less than its full share to the cost of rearing and educating the workers in it; and to their present support: it is suggested that the injury lies in forcing down wages in that industry. This charge needs to be carefully considered; but the offence appears to be incorrectly named: it should be described not as “parasitism”, but as “unduly subsidized competition”.^x

*[undated]*⁴⁸

⁴⁸ Text written on pale grey and white folios, not numbered. The title was added to the main text, written in normal pencil; the main text is very much amended with additions and several cancellations.

CHAPTER II

RELATIONS OF CAUSE AND EFFECT BETWEEN MAN'S CHARACTER AND HIS INDUSTRIAL CONDITIONS

1. Industry and Labour

[In underlining the main features of modern economic system and industry, Marshall makes the following list of reflections:]

(A) Characteristics of an Economically Capable Race

1. Knowledge of
 - (a) the physical environment
 - (b) the social environment
2. Forethought as shown by
 - (a) Industry
 - (b) Thrift
3. Defendableness made up of
 - (a) Honesty
 - (b) Sobriety
 - (c) Courage
 - (d) Fidelity
4. Reasonableness as shown by
 - (a) Eagerness to leave
 - (b) Obedience to law
 - (c) Willingness to cooperate.

(B) Industrial Organization

Methods of compassing capital

Partnership

Each partner is fully responsible for the acts of the other and incompetent or dishonest partners have caused the financial ruin of many other wise sound and capable business men. Partners may be sleeping or active. Possibility of specialized knowledge.

Joint Stock.

Limitation of Individual liability

Great capital put up.

Enduring life

Diversion of risks. Can undertake risky enterprises

Demoralization of industry. Small capital shares in profits of large scale industry.

Decrease of scope of small scale industry.

Oligarchic powers of large shareholders.

Multiplied powers and divided responsibility.

If a mob which thinks and acts precisely as any of its individuals wonder if his powers were greatly increased and his sense of responsibility greatly diminished. Only remedy is to adopt maxim that crime is always personal and that corporate law beating is to be dealt in same way as individual law beating. E.g. make individual members responsible for acts of the corporation.

(C) Trusts and Prices

Carver⁴⁹ says that where competition fails to regulate prices the State must step in and control prices – get joint action of politicians and trust operators.

This would destroy most of the trusts. No trust exists by virtue of its superior productive powers. Every trust depends for its existence upon its superiority in buying or selling: i.e. upon its power over prices. Take away this power and enable the outside concerns to match their productivity against that of the trust and outside competition will increase and force the trust to break up into its most efficient productive units and distinct from the most efficient bargaining units.

(D) Control of Industry

Generally speaking the indispensable man, whether he be the one who furnishes capital, the one who furnishes raw materials (as in the case of the cooperative creamery) the one who buys the finished product (cooperative store) or the one who supply [supplies] the labour (cooperative production)

⁴⁹ Thomas Nixon Carver (1865-1961), American economist and sociologist, focused especially on problems of distribution of wealth and social evolution. Marshall had a number of Carver's Books (see the catalogue of Marshall's Library compiled by Mary Paley Marshall and D.Barber in 1927) and several articles collected in the bound volumes, especially on Taxation, Money, Value, and Labour (See Caldari 2000 and 2003).

is in so strong a position that he can dictate terms to all the others. If there ever comes a time [in] which capital is superabundant and when every labour is almost indispensable because of the great scarcity of labour, then capital will lose the power to direct the management of industries and will take the position of a hireling. The labour will then gain control and assume the position of the master. (Carver, *Principles of Political Economy*⁵⁰ p. 180)

Wealth is stock of all goods, income (scientifically treated) the net flow of all goods. Capital the stock of those goods which are properly regarded as yielding income.

Scientific view of income includes puddings made in kitchen and a benefit of a frame in a private drawing room.

(E) Economics and Politics

Even in purely economic questions we ask always not what is, but what should be, what we want of them and what we can effect. A technical knowledge of circumstances, of causes and consequences is naturally necessary for a serious discussion. But even after the most scientific examination people arrive almost always, above all in important questions, at different conclusions, because different aims have been followed.

These conclusions are always dictated by political conceptions. When it comes to questions of Sunday rest, if woman labours should be countenanced; if and how the land should be redistributed, how the relations between labour and capital should be organized in modern industry, and perhaps, above all, who should pay the taxes – all these questions and hosts of others raise up problems not only of knowledge but also of will. They are questions in which the chief concern is not with economics but with the situation of man, his rights, his liberty and his dignity within the State (Brunet, *The German Constitution*⁵¹)

(F) Marginal Utility

The amount of any commodity which a person will consume is influenced by the existence of other commodities also yielding utility. The utility of the last increment of any commodity that he will find it worth his while to consume, having regard to the “full” of other utilities, is known as the marginal utility of the commodity to him.

⁵⁰ T.N. Carver, *Principles of Political Economy*, Ginn and Company, Boston, 1919.

⁵¹ R. Brunet, *The German Constitution*, first edition 1912, second edition 1923.

(G) Interest

In the Middle Ages interest was frowned upon because there were only two classes who chiefly borrowed, apart from the king, - the poor owing to their necessity, to whom it was held to charity to lend and from whom interest should not be demanded, and the extravagant to whom lending would only result in increasing their extravagance.

(H) The Fixed Work Fund Fallacy

If say the supply of boots increases this will lower their price. There is now an excess of purchasing which is either (a) spent on boots – in which case employment in boots is not diminished (elastic demand) (b) spent on something else - in which case there is an addition demand for labour elsewhere.^{xi}

[undated]⁵²

How to estimate the importance of an industry

Normal results

A. The services it renders can be estimated roughly by the price which people will pay for its products and, (if it works for home consumption), account being taken if necessary of the real value of 1s⁵³ to the purchasers concerned; and also of indirect effects on health and etc: and lastly consumers[?] surplus.

But if it works for export then the aggregate price of its products alone is a tolerably fair measure; subject always to the condition that transport facilities and fiscal policy may affect the purchasing power of money. But this is not relevant to relative importance of an industry.

B. Outlay of effort and sacrifice. Interest is fairly equal in all trades. This therefore comes to (a) small amount of capital, and (b) small amount of labour + high rate of earnings:

Education effects also to be taken into account.

⁵² Text written on white folios, in the form of notes. Although it is undated, the reference to the book by Brunet seems to give us some indication as to the possible date of the manuscript: in the Catalogue of the Marshall Library of Economics published by Mary Paley Marshall, in fact, only the 1923 edition is recorded; this seems consistent with the manuscript handwriting, which clearly belongs to a very old Marshall.

⁵³ Abbreviation for “shilling”; it derives from the Latin “solidus”. Before decimalization in 1971, there were 20 shillings per pound and the shilling was subdivided into 12 pennies. The symbol used for pence was *d* (from the Latin “denarius”). Both “solidus” and “denarius” were coins used in the Middle Ages.

Real importance is A – B: not B.

E.g. agriculture would be much less important to us if it produced only as much as it does and found more employment.

C. As to secondary industries. It is always a question whether to count as separate industries, say, spinning and weaving. For some purposes yes, for others no.

Be explicit and consistent.

If as separate then neither is to be regarded normally as adding to the importance of the others.

If together then a firm which works with imported yarn, will be counted right if taken on its wages bill but wrong if taken on its product without deductions.

Raw produce of course always omitted.

Disturbances. A & B unchanged.

But as to C: to estimate effect of disturbances, subsidiary and associated industries are to be reckoned for.

E.g. (i) stoppage of mining coal lays up colliers

(ii) If colliers are laid up by weather, that stops miners

Therefore we may count both trades in more or less if discussing national advantages of (α) a sliding scale or mining conciliation board or (β) improved harbours of shelter to enable colliers to venture out in risky weather.^{xii}

[undated]⁵⁴

⁵⁴ Text written in red ink with an addition in black pen, on white folios.

How to estimate manufactures qualitatively

	<i>Relative Awkward Instances</i>	
	<u>manufactured</u>	<u>non manufactured</u>
A. <u>Purpose</u> , whether food or not <i>Note Biscuits are generally taxed very highly because manufactured, though not so classed</i>	Straw plait in some cases save timber	chocolate lemon wafers
B. Source of chief value <u>Nature</u> or <u>man</u> : or to be more explicit all as the greater part of their value is due to the physical qualities of the place of their origin or to labour + capital	Bricks	diamonds choice wine rare wood
C. Source of chief value <u>manual labour</u> or <u>other things</u> , including use of capital and rare qualities of land	fish or seaweed caught freely with next to no plant	watches made mainly by machinery
D. Having much to be done to them before being used (so that it would have been possible to put more labour into them before exportation)	Coarse blankets at 6d	Silk dress Stuffs at £1 a yard

D alone is logical: but it does not suggest what most people think.

But to estimate true value of exports we must deduct value of raw material, if imported, in exports and to estimate true value of manufactured exports, we must deduct value of all raw material in export

To estimate exports as indication of social progress, we ought to look only at qualities of labour used in them: but we ought to count in brains as well as hands. Thus Germany's exports of books, and musical instruments count for much: so also her exports of fine chemicals, and of scientific instruments and apparatus, even though there is little manual labour in them.

Also French fashion material, which are valuable because they are fashionable and of French millinery which is valuable because highly sensitive manual labour has been put into it^{xiv}.

*[dated 26.2.06 and 30.10.08]*⁵⁶

[In the following three manuscripts Marshall underlines some main changes regarding artisans and office work:]

[...] the facilities offered by banks are turned to account by the lower middle classes, who had but scanty access to them in earlier times; and even by a considerable number of highly paid artisans. This is one of many directions in which the term “artisan” and even the term “the working classes” as used by early writers on economics, and even by some of comparatively recent times, is not altogether applicable to the problems of the present time. Scarcely any economist before the middle of the nineteenth century anticipated so rapid a rise in the faculties and the opportunities of the “working classes” as has taken place since. Much attention has recently been given to the consequent shifting of the centre of political power that has already resulted from recent changes in the “weight” of manual labour interests in national and local legislation and administration: and the time is perhaps not far distant at which financiers when estimating the prospects of a new adventure on the Stock Exchange, will find it to their interest to make some study of working class sentiment and opinion as to it^{57, xv}.

*[undated]*⁵⁸

[...] and forces, which are apparently irresistible tend to raise the status of high class artisan work relatively to the simpler and less responsible kinds of office work. There is indeed some injustice in the custom which compels a clerk to pay for the education of his children; while an artisan, with a larger income than his, can without reproach, obtain at least as good an education for his children at the cost of the State. Such inequalities are

⁵⁶ Text written on white folios, numbered pages 1-3. in black and in blue pencil. The text had been amended several times; main text in black ink (like the date, 26.2.06), additions in red pen and blue pencil (like the date, 30.10.08); on the first page is written in blue pencil: “Quality of IT competition. These two pages of doubtful value, but use p. 3 for Quality of IT competition”. Here the text of page 3 is given in italics.

⁵⁷ [Marshall’s footnote:] “In this connection reference may be made to JS Mill Autobiography (pp....)”.

⁵⁸ Text written in black pen on white folios, not numbered.

perhaps unavoidable in a period of rapid change, such as the present. In the course of time manual work, that requires strong faculties, will perhaps be generally recognized as of a higher order than routine office work; and many artisans will be dressed (on weekdays and on Sundays alike) as carefully and well as most of those who do routine work in banks and other offices. On the other hand there may probably be some strengthening of the line of division between those kinds of office work which demand but little faculty, and those which call for strong judgment and quick initiative. Already the earnings of a painter or a writer vary with his faculty only: and have no direct connection with his occupation; and similar results may be attained gradually in many occupations in which the rate of payment is standardized. The efficient artisan would gain by such a change: the inefficient would lose by it: but....^{xvi}

[undated]⁵⁹

[...] On the other hand "faculties of character", as they may be called are constantly rising in value. The lowest classical work of all is indeed so much under the direct control of the head of a small business, or of a specially responsible employee of a larger business, as to require little force, and even steadfastness, of character. But, speaking generally, the lowest class of work in shops and some other trading establishments require but little force of character. It has fallen, and it is likely to fall further in value, relatively to many kinds of work in agriculture and in transport; which still require, as of old, an isolated worker to rely on his own resources of judgment and prompt action in the face of an unforeseen difficulty^{xvii}.

[undated]⁶⁰

*Contrasts between the causes which govern the supply of high class machinery etc, and those which govern the supply of high class workers*⁶¹

⁵⁹ Text written in black pen on white folios, numbered pages 1-3.

⁶⁰ Text written in black pen on white folios. Over the text "rewrite" is written in normal pencil.

⁶¹ These two lines are written in black and underlined in red ink, on the blue paper used by Marshall for writing headings. Before the heading is added the paragraph number "4", not transcribed here in the main text. A footnote to the heading reads "This section subsidiary to IV, III, 7 is for the greater part abbreviated from my Principles VI, IV, V". Above the text is added in normal pencil: "At present I incline to keep this § perhaps rather compressed. Note white paper with red and

WHATEVER DEFICIENCIES THE MODERN METHODS OF BUSINESS MAY HAVE, THEY HAVE AT LEAST THIS VIRTUE, THAT HE WHO BEARS THE EXPENSES OF PRODUCTION OF MATERIAL GOODS, RECEIVES THE PRICE THAT IS PAID FOR THEM. HE WHO BUILDS FACTORIES OR STEAM-ENGINES OR HOUSES, OR REARS SLAVES, REAPS THE BENEFIT OF ALL NET SERVICES WHICH THEY RENDER SO LONG AS HE KEEPS THEM FOR HIMSELF; AND WHEN HE SELLS THEM HE GETS A PRICE WHICH IS THE ESTIMATED NET VALUE OF THEIR FUTURE SERVICES⁶²; AND THEREFORE HE EXTENDS HIS OUTLAY UNTIL THERE SEEMS TO HIM NO GOOD REASON FOR THINKING THAT THE GAINS RESULTING FROM ANY FURTHER INVESTMENT WOULD COMPENSATE HIM⁶³. HE MUST DO THIS PRUDENTLY AND BOLDLY, UNDER THE PENALTY OF FINDING HIMSELF WORSTED IN COMPETITION WITH OTHERS WHO FOLLOW A BROADER AND MORE FAR-SIGHTED POLICY, AND OF ULTIMATELY DISAPPEARING FROM THE RANKS OF THOSE WHO DIRECT THE COURSE OF THE WORLD'S BUSINESS. THE ACTION OF COMPETITION, AND THE SURVIVAL IN THE STRUGGLE FOR EXISTENCE OF THOSE WHO KNOW BEST HOW TO EXTRACT THE GREATEST BENEFITS FOR THEMSELVES FROM THE ENVIRONMENT, TEND IN THE LONG RUN TO PUT THE BUILDING OF FACTORIES AND STEAM-ENGINES INTO THE HANDS OF THOSE WHO WILL BE READY AND ABLE TO INCUR EVERY EXPENSE WHICH WILL ADD MORE THAN IT COSTS TO THEIR VALUE AS PRODUCTIVE AGENTS. BUT THE INVESTMENT OF CAPITAL IN THE REARING AND EARLY TRAINING OF THE WORKERS OF ENGLAND IS LIMITED BY THE RESOURCES OF PARENTS IN THE VARIOUS GRADES OF SOCIETY, BY THEIR POWER OF FORECASTING THE FUTURE, AND BY THEIR WILLINGNESS TO SACRIFICE THEMSELVES FOR THE SAKE OF THEIR CHILDREN. THIS EVIL IS INDEED OF COMPARATIVELY SMALL IMPORTANCE WITH REGARD TO THE HIGHER INDUSTRIAL GRADES. FOR IN THOSE GRADES MOST PEOPLE DISTINCTLY REALIZE THE FUTURE, AND "DISCOUNT IT AT A

blue writing at end 4.9.12". The Text reproduced in this manuscript is made up of pieces cut and pasted from *Principles*, some typewritten, others handwritten. In what follows we have put the printed and pasted text in small caps; the typewritten text in normal characters; the handwritten text in italics.

⁶² Text deleted at this point (from *Principles*): "The stronger and more efficient he makes them, the better his reward".

⁶³ [Marshall's footnote:] "This is consistent with the well-known fact that the slave labour is not economical, as Adam Smith remarked long ago that "The fund destined for replacing or repairing, if I may say so, the wear and tear of the slave is commonly managed by a negligent master or careless overseer. That destined for performing the same office for the free man is managed by the free man himself [...] with strict frugality and parsimonious attention".

LOW RATE OF INTEREST"⁶⁴.

THE PROFESSIONAL CLASSES ESPECIALLY, WHILE GENERALLY EAGER TO SAVE SOME CAPITAL FOR⁶⁵ THEIR CHILDREN, ARE EVEN MORE ON THE ALERT FOR OPPORTUNITIES OF INVESTING IT IN⁶⁶ THEM. AND WHENEVER THERE OCCURS IN THE UPPER GRADES OF INDUSTRY A NEW OPENING FOR WHICH AN EXTRA AND SPECIAL EDUCATION IS REQUIRED, THE FUTURE GAINS NEED NOT BE VERY HIGH RELATIVELY TO THE PRESENT OUTLAY, IN ORDER TO SECURE A KEEN COMPETITION FOR THE POST.

BUT IN THE LOWER RANKS OF SOCIETY THE EVIL IS GREAT. FOR THE SLENDER MEANS AND EDUCATION OF THE PARENTS, AND COMPARATIVE WEAKNESS OF THEIR POWER OF DISTINCTLY REALIZING THE FUTURE, PREVENT THEM FROM INVESTING CAPITAL IN THE EDUCATION AND TRAINING OF THEIR CHILDREN WITH THE SAME FREE AND BOLD ENTERPRISE WITH WHICH CAPITAL IS APPLIED TO IMPROVING THE MACHINERY OF ANY WELL-MANAGED FACTORY⁶⁷.

They are generally willing to suffer much for the sake of benefits which their children will reap after they themselves have passed away, and their sacrifices are not seldom heroic. But in spite of the ever increasing subsidies from central and local exchequers, which are allotted to public education, there is no country – not even Germany *Denmark* or Scotland – in which there is an approach to certainty that more expensively produced workers will be supplied in adequate numbers for all uses in which the net addition which they would make to the money value of the national income would much more than repay the expenses of their nurture and training.⁶⁸

And THIS EVIL IS CUMULATIVE. THE WORSE FED ARE THE CHILDREN OF ONE GENERATION, THE LESS WILL THEY EARN WHEN THEY GROW UP, AND THE LESS WILL BE THEIR POWER OF PROVIDING ADEQUATELY FOR THE MATERIAL WANTS OF THEIR CHILDREN; AND SO ON *the following generations*. AND AGAIN, 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 SO⁶⁹.

⁶⁴ *Principles*, p. 561 (Eighth edition).

⁶⁵ In italics in the text.

⁶⁶ In italics in the text.

⁶⁷ *Principles*, p. 562 (Eighth edition).

⁶⁸ Text (handwritten) deleted at this point: "Some employers do not no doubt recognize that high paid labour, well selected and fostered is the cheapest in the long run, provided they can retain [...]".

⁶⁹ *Principles*, p. 562 (Eighth edition).

But here allowance must be made for the important fact that an increasing number of employers that high paid labour, well selected and fostered, is the cheapest in the long run; it being understood that have a reasonable security of retaining those whose aid is most valuable to them: and this they very often can do; because the enterprise and generosity of their action makes men of high ability and character glad to work with them and sorry to leave them.

But the benefits which such an employer confers on the community far beyond his own business. For THE CHILDREN OF HIS employees⁷⁰ SHARE IN THEM, AND GROW UP STRONGER IN BODY AND IN CHARACTER THAN OTHERWISE THEY WOULD HAVE DONE. THE PRICE WHICH HE HAS PAID FOR LABOUR WILL HAVE BORNE THE EXPENSES OF PRODUCTION OF AN INCREASED SUPPLY OF HIGH INDUSTRIAL FACULTIES IN THE NEXT GENERATION: BUT THESE FACULTIES WILL BE THE PROPERTY OF OTHERS, WHO WILL HAVE THE RIGHT TO HIRE THEM OUT FOR THE BEST PRICE THEY WILL FETCH: NEITHER HE NOR EVEN HIS HEIRS CAN RECKON ON REAPING MUCH MATERIAL REWARD FOR THIS PART OF THE GOOD THAT HE HAS DONE⁷¹.

Just as the son of the artisan has in general a better start in life than the son of an unskilled labourer, partly because he is brought up in a more refined home and with more of a mother's care; so the children of employees of all grades in such a business have a better start than most other children of similar grades.

And this influence reaches far: for the MOST VALUABLE OF ALL CAPITAL IS THAT INVESTED IN HUMAN BEINGS; AND OF THAT CAPITAL THE MOST PRECIOUS PART IS THE RESULT OF THE CARE AND INFLUENCE OF THE MOTHER, SO LONG AS SHE RETAINS HER TENDER AND UNSELFISH INSTINCTS, AND HAS NOT BEEN HARDENED BY THE STRAIN AND STRESS OF UNFEMINE WORK. ⁷² Thus IN ESTIMATING THE COST OF PRODUCTION OF EFFICIENT LABOUR, [...] THE COST OF PRODUCTION OF EFFICIENT MEN is not AN ISOLATED PROBLEM; IT MUST BE TAKEN AS PART OF THE BROADER PROBLEM OF THE COST OF PRODUCTION OF EFFICIENT MEN TOGETHER WITH THE WOMEN WHO ARE FITTED TO MAKE THEIR HOMES HAPPY, AND TO BRING UP THEIR CHILDREN VIGOROUS IN BODY AND MIND, TRUTHFUL AND CLEANLY, GENTLE AND BRAVE⁷³.

⁷⁰ The word *employees* is added instead of “*workpeople*” used in *Principles*.

⁷¹ *Principles*, p. 566 (Eighth edition).

⁷² Text deleted at this point (from *Principles*): “This draws our attention to another aspect of the principle already noticed that.”

⁷³ *Principles*, p. 564 (Eighth edition). These parts, which are in the *Principles*, are here deleted by Marshall: “This draws our attention to another aspect of the

The fitting of youths for their future work must look on the average a full generation ahead. *But no builder of houses or factories or ships or stationary engines* astute enough to build exactly as he could wish he had done twenty-five years hence: and no human forethought could select for the rising generation exactly that industrial training which in a retrospect twenty-five years hence would appear to have been the most advantageous, when the costs of the education and the earning power which arose from it had been calculated on ordinary business lines so that the aggregate net outlay (allowing profits on it at a compound rate) up to the year in which the earnings began to exceed the outlay, were fairly covered by the subsequent earnings (discounted back for reference to that year).

With this in mind we pass to consider how the obstacles to the close adaption of the supply of labour in any particular occupation to the demand for it has been, on the one hand increased by the increasing number and scope of changes in industrial methods which occur in each generation; and on the other hand diminished by a diminution of those qualities that are specialized to particular occupations relatively to those which constitute general efficiency.

We must leave very much out of account those "connatal" faculties which appear to owe nearly everything to the bounty of nature: little or nothing to any effort or other cost incurred deliberately for their production: and though their supply may possibly be increased under the influence of Eugenics and other sciences at any one time it has to be taken as a practically fixed quantity like that of the land of any country; and the market value of such qualities, like that of land, is governed mainly by the relations of demand to that quantity. Other sciences – and, in spite of the confident assertions of some extreme Eugenists to the contrary, it may perhaps ultimately be found that these are not much less important than the connected qualities – are governed by post natal influences. The chief of these are generally those of the mother, at all events in the grades of society with which we are now concerned, in which young children are seldom committed to the care of hired helpers. Almost as important are those of the father, in the rapidly diminishing number of cases which the son works under his eye. Then come the influences of schoolmaster, foreman and others in his place of business and his associates. Nearly all of these last depends in part on the unselfish devotion of the parents and the means at their disposal for bringing him into touch with high class

principle already noticed, that" and "must often take as our unit the family. At all events we". Added in blue pencil "Leave a line vacant".

*people; for introducing him to a high class business; for defraying the costs of his living at home, [ad]dressing a long education, even though the direct expenses of it are paid from the public purse⁷⁴. The influences of employer and foreman and of the workshop generally are likely to be limited. There are several other distinctions between the relations of demand to supply in the case of workers and machines, but they are of secondary importance at all events in regard to the matter now in hand, though some of them call for attention in connection with the study of disturbed conditions of employment in Division B of Book IV. ^{xviii}
[dated 4.9.12]⁷⁵*

To conclude: an advance in industrial technique may injure a manufacturer who has invested much of his capital in specialized plant: and it may injure a skilled artisan who has invested much of his energy in the acquisition of manual dexterity which is outdone by a new subtle and powerful machine. Industry is engaged in war against difficulties: and a victory which sends expert soldiers back to humble mechanical toil, often causes his brightest thoughts to be associated with the past rather than with the future.^{xix}
[undated]⁷⁶

2. Characteristics of British Industries

Every one knows that England and in a less degree other countries are becoming:

- less agricultural more manufacturing
- less rural more urban

⁷⁴ [Marshall's footnote:] "This statement is applicable with but little change to girls and women, as well as to lads and men. But in their case the influence of the mothers goes of course further, even from the point of view of the individual employer. And from the higher social point of view from which the functions of coming generation of women as mothers are far more important than their industrial functions, home influences are probably much more important than all others together".

⁷⁵ Text partly typed, partly handwritten (in black pen) and partly cut out from *Principles* and pasted on white folios.

⁷⁶ Text written in black ink on white folios, numbered 19-20 in blue pencil.

- less neighbourly more philanthropic
- less custom ridden more influenced by waves of thought
- less governed by established authority more governed by public will
- less subject to want more eager for more
- less handicraft more machine work
- less domestic work more militarily organized factories

In all these things we agree as to general tendencies: but if it is asked how much each tendency is, we must fall back on statistics and statistics generally tell us what misleads⁷⁷.

The Socialists say all is tending to bigness and must so tend.

It may be so: but it is necessary to look.

Our first task is to take a general view of causes that have brought about the present arrangements, and especially during the last 100 years.

After that historical introduction will go a more careful analysis of the causes and methods of big and very big and biggest capitalistic production, and its tendencies to mechanicalism in (i) technique (ii) administration.^{xx}

[undated]⁷⁸

Advantages of manufactures in England over those of other countries:

- (a) good near markets in which to buy
- (b) good access to markets in which to sell
- (c) good supplies of capital
- (d) facilities for testing improvements and high prompt reward for them if made
- (e) rise of ability from below
- (f) absence of war
- (g) influence of railroads.

*French document of 1785. Says her leadership arose from "dexterity in supplanting and performing labour by capital" and "the use of machinery"*⁷⁹ ^{xxi}

⁷⁷ Written in the margin: "That for Wednesday. But for Tu. Th at starting – some inquiry into economic basis of it all".

⁷⁸ Text written on white folios, not numbered. Most probably lecture notes.

⁷⁹ The text given here in italics is a note in the margin: it includes the same quotation cited in *Industry and Trade*, p. 113. Marshall drew the quotation from Lauderdale's text of 1806 (1919: 112) – *An Inquiry into the nature and origin of*

[undated]⁸⁰

Fluidity of capital specially necessary for B[ritain]'s industries

It seems that this is the only useful idea for a finishing volume which is to be got out of this paper^{xxii}.

[undated]⁸¹

Changes in character of British industries.

II Britain Broad Points

[Manufactures especially between 15 and 25]

	<u>Causes:</u>
Increase of occupied women, but greater decrease in agriculture and domestic service (partly change of classification)	Growth of specialist clothes making, baking, education etc
Diminution of children (but boys on errands small decrease)	Factory Acts
Slow increase or retardation in machine industries of non progressive type	1) suitable for backward countries 2) heavily protected 3) mainly inelastic demand 4) special carriers wood workers etc
Rapid increase in all trades that work exclusively for home consumption except agriculture, fishing	Both results have a common cause in inability to be standardized and machine made, agriculture limitations of land, fishing use of steam
Increase rapid in conveyance	Heavy things can be moved further, greater specialization in uses of things causing e.g. iron and steel of different sorts to cross one another.

public wealth, and into the means and causes of its increase (Edinburgh, Constable and Co, p.228) which was first published in 1804. The French document which Marshall refers to is the Commercial Treaty between France and England, which Lauderdale quotes both in French and in English in Appendix X of his book.

⁸⁰ Text written in red pen on a white folio.

⁸¹ Text written on a white folio. Mary Paley Marshall wrote in the margin: "This, I believe is from speech to be found in the Bankers' magazine".

Here Mary is most probably referring to the *Discussion on Mr Schuster's "Foreign Trade and the Money Market"* published in 1904 in the *Journal of the Institute of Bankers*. (Vol. xxv: 94-98), in which is discussed the theme of the importance of maintenance of Free Trade for Great Britain (see Keynes in Pigou 1925: 500-508).

<p>Rapid increase in: Commercial classes, including even retailers in spite of universal providers etc</p>	<p>Tendency to get wood and metal work not from local carpenters and iron workers, but from manufacturers. Increased concentration of milling, boot making, tailoring and other industries. Bringing of meat or dairy produce and fish from great distance. Increase in bulk and still more in variety of things to be produced. Wholesale price has fallen, but a man who can give a good choice and will take trouble about suiting the special wants and tastes (more of which have a solid basis than appears at first sight) can charge an addition to wholesale price which rewards him for keeping a great number of assistants. Clerks partly needed for counter checks^{xxiii}</p>
--	--

[dated 13.1.23]⁸²

Occupations

Changes in UK occupations depend partly on International Trade, i.e. on
changes in other countries occupations.

For the rest they depend mainly on

- i) technical causes
- ii) the contrast between expenditure
 - (a) limited to necessaries and simple comforts
 - (b) largely for subtle physical enjoyment, recreation,
education^{xxiv}

[dated 22.1.07]⁸³

3. Large scale production and advertising

We have seen that the economies of production in most manufacturing and
other industries develop fast in the earlier stages of the increase in the
scale of production⁸⁴; but that in more advanced stages the extra
economies arising from further expansion become relatively smaller. In

⁸² Text written on blue folios, not numbered. The main text is written in red ink.
Above the first page is added in black pen: "13.1.23. To be postponed. Perhaps to
be developed in an appendix, while earlier parts are at press".

⁸³ Text written in red ink on a white folio, not numerated.

⁸⁴ Text deleted: "that after a certain stage in the expansion of an industry increases
from small to moderate, from moderate to large has been reached".

such industries as printing books, spinning yarn, or weaving staple cloth an establishment of moderate size can secure by far the greater part of economies that are open to one of the very largest size. To obtain a similar approach to perfection in the heavier iron and steel industries requires a much larger organization; but even in them a very near approach to the highest possible economy of production is attainable by works such as those at Seraing⁸⁵, for which scope has been found in so small a country as Belgium.

To put the same thing in another way: the modern economies of production on a large scale tend to create large firms which dominate large areas: but a relatively small country can offer scope to one or more firms in almost every industry on so large a scale, that the greatest conceivable firm would not have any intense superiority over it. Even the United States with their perfect free trade extending over a homogenous population which may exceed 150,000,000 before the middle of this century, cannot maintain an industry which derives from the magnitude of its operation economies that are vastly superior to those which are within the reach of Germany or England or even Belgium.

Thus no country is likely to be able to compel others to buy its manufactures on terms which yield it any much of the nature of monopoly profits; save in so far as it may have some approach to monopoly of the raw products of which those materials are made. The almost monarchical power which English manufactures held in the middle of last century is not likely to fall again to any other nation: the nations which are able to turn the power of nature to the service [of] man in the highest degree are likely to form an oligarchy of rivals.

But their rivalry is likely to raise large new issues, especially in connection with the growing magnitude and power of individual firms and combinations, which after having dominated their neighbours at home, set themselves to dominate foreign markets. This is not a modification of the old case of a national monopoly dominating other countries: the natural domination is by individual units within a nation and is as a rule more absolute and tyrannical at home than abroad^{xxv}.

*[undated]*⁸⁶

⁸⁵ Seraing is a municipality in the Province of Liege. It became an important centre for the production of iron and steel in 1817, when John Cockerill founded modern metallurgical plants and foundries there. Seraing is still important for its steel factories, and the company “Cockerill-Sambre” now produces steel for ArcelorMittal, a world-leading steel and mining company.

⁸⁶ Text written in black pen on white folios, somewhat amended.

Some large firms, and combinations of firms, especially in Germany, claim to steady the home market and to confer on the labourer or producer a benefit greater than the harm which they do him as consumer by their policy of keeping prices steady in the home market, and selling surplus products at whatever price they will pitch abroad.

To what extent do you regard this claim as valid?

Depends partly on conditions which are called unsteady, and partly on whether product is say lace not consumed by worker, or iron and other things which directly or indirectly are subservient to his purposes^{xxvi}.

[undated]⁸⁷

Big production. Original so called big industry was not very big scale production. It was big scale buying and selling + substitution of nature's forces for human.

Now that is accomplished almost throughout: and the advantages of a further increase in the size of firms are relatively smaller.

Decreasing Returns, so far as production goes, but not always in regard to marketing^{xxvii}.

[undated]⁸⁸

Methods of Advertising

Placards, newspapers, circulars with or without samples, striking shop front in big thoroughfare; big Exhibitions; drummers and commission agents (including retailers) paid by discounts to act as drummers.

Selling cheaply for a time a particular thing, or more probably some other thing, of which customers are good judges. Excursion trains to familiarize people with new centres, cheap passenger (western US) trains to attract goods. In exceptional cases taking special contracts at a loss; e.g. Belgian engines for English railways. And even sensational law suits etc. Price competition etc.

Monopolists advertize more than others to create demands (e.g. a patented safety pin when new)

Monopolists advertize less than others to satisfy existing demands, e.g.

⁸⁷ Text written in back pen on a white folio, numbered page 1.

⁸⁸ Text written on a white folio. Different kinds of black ink used. Written in the margin in black pen is "Early" + an asterisk in red pen.

railway facilities offered when there is no competition.

In so far as it brings people to know of a means of meeting wants which they would not otherwise have discovered, it is an element of cost of production of a desirable thing. In so far as it merely ousts one producer for another, it is an element of waste.

This is a large part of the solid kernel of the argument for the economy of big combinations (with Bellamy's big State magazines⁸⁹ at the top of all) in selling[.]

Ditto possible to some extent in buying: e.g. buyers of second hand goods[.]

Private wires enable newspapers, especially when set wholly or in part in duplicate or triplicate, to cover a large area.

That leaves the field of purely local advertisements for local newspapers.

But on the whole a wide spread newspaper helps "packet" firms and others which appeal to a wide and not merely local custom: it brings grist to the parcels post, and it diminishes the scope of the retailer.

Of course the more is spent on advertising the more of a commodity can be sold, given its quality and price.

The question practically is: - does it pay better to (1) spend much on advertising or (2) to spend more on improving quality or (3) to accept a lower price.

As a rule (1) is a bad policy when customers are good judges. While in a case of strong IR it pays to sink capital in advertising and sell at a price which does not cover it.

In so far as advertising railway excursions lets people know of new possibilities, that is economical. But if - as sometimes happens - railways agree not to advertise against one another, they can put nine tenths of the diminution in the expense of advertising in their pockets. Possibly they may lower fares. They often do both of these things^{xxviii}.

[undated]⁹⁰

⁸⁹ Edward Bellamy (1850-1898) was an American author and socialist, famous for his utopian science fiction book, *Looking Backward, 2000-1887* (1888): within a year the book had sold some 200,000 copies. The book inspired the readers to establish "Nationalist Clubs": his vision of a country relieved of its social ills through abandonment of the principle of competition and establishment of state ownership of industry. He founded his own magazine, *The New Nation*, in 1891, and promoted united action between the various Nationalist Clubs and the emerging People's Party.

⁹⁰ Text written in both black (first two folios) and red pen (third folio) on white folios not numbered. The text has been much amended.

Advertising: is social waste in so far as it diverts purchaser from one thing to another, only equally good (at the price). But in so far as it brings the customer into contact with things that are more suitable for him than others at the price (or cheaper than others equally suitable) and is necessary in order that that end may be achieved, it is socially careful though even then it may cost more than it is worth. These lines of demarcation are clear in the abstract. But in practice they present no clear outline. A few broad positions can however be laid down

- (a) A new thing must generally be advertised, by drummer, circular, and newspaper etc;
- (b) One old thing in the hands of a new man must be advertised for wholesale work by drummer and circular: for retail work largely by shop window and "six years";
- (c) There is, from an abstract point of view, a large scope for Government or trade-organization certificates as to quality; which would enable the purchaser to get the cheapest thing of the kind he needs without relying on the middleman. General stores might help this movement; but as things are they play chiefly into hands of big semi-monopolistic firms: and the ordinary retailers do not see their interest in helping the small producers^{xxix}.

[dated 29.6.14]⁹¹

4. Employment conditions and the problem of unemployment

Allied to vagueness of term "amount of employment" is that of "relative importance of industries" and of "efficiency"; and again volume of our manufactures (measured in terms of money, not yards)

The chief changes which have been made in the meanings of these two terms by[:]

- (a) machinery [and] (b) transport → diminishing demand of muscles

On the first page is written the title "Advertising, methods of". In the margin of the parts written in black is written: "Should be red".

⁹¹ Text written in black pen on small white folios, not numbered.

(c) wealth, giving room for new enjoyment

(d) knowledge and refinement, developing subtler tastes^{xxx}

[undated and dated 17.8.22 and 13.9.22]⁹²

Stability of employment depends on adjustment.

Making work may be beneficial in presence of a calamity against which little or no provision can be made even by careful prevision.

But in the main employment at good wages depends on

(1) aggregate net income
per head and

(2) distribution of
that.^{xxxi}

[dated 29.4.08]⁹³

Employment of manual labour depends on adjustment so far as constancy is concerned:

I.T. on the whole assists: less indeed than if other nations were free trade, but more than if we were protectionists, whether or not they were (Dumping and combative duties postponed)

but so far as aggregate annual amount and Nat[ional] Dividend together with *relative* abundance of cooperative factors which are[:]

⁹² Text written in red pen with some additions in black pen on white folios. At the beginning of the text is written “§1”. The two pages are bound to a brown folio, very much amended. Two different black inks are used (corresponding to the different dates written on the page). This is the text (later additions in small caps): “17.8.22, *Develop this at home*. Changes in the character and volume of different Occupations

To be developed into one or more sections, when Occupations volume of 1921 census is to be had

DOUBTFUL, 13.9.22

For Book V ‘Economic ideals, and tendencies towards their realization’ ”.

⁹³ Text written in red pen, on blue folio, not numbered.

<p><i>I.T. lifts us out of our difficulties</i> 1) National resources (land water air heat light etc) 2) Capital (broadly treated and including constructive business) <i>IT promotes importation of capital is thus harmful: but in this respect remember that abundance of imported luxuries for well to do keep capital at home</i> 3) Higher grades of industrial (including trade) ability <i>Influence of IT on this (3) is in different directions: details later</i> 4) Professional classes of all kinds <i>No great influence; though in so far as it leads to importation of German musicians, it is a gain to all but the home musicians</i> NB Onerous taxes have to be deducted from Nat[ional] Div[idend].</p>	<p>In so far as they are engaged in producing things of the class consumed by the manual workers</p>
---	--

Distribution of that (proportional) share of Nat[ional] Div[idend] which goes to manual labour classes in the aggregate depends on relative supplies among different occupations of those classes.

And this is governed in the long run by difficulty of task and disequilibrium.

Difficulty depends on necessary[:]

A training (general education (1); technical education (2); wor[k]shop education (3))

B faculty (varies with nature of the work laterally as well as vertically)

Manifold influences of IT

Sweated goods → Aniline dyes

A_{1&2}, depend nowadays chiefly on excellence of accessible schools + power and willingness of parents to keep their children long away from wage caring occupations

A₃ very largely on good-will of employers (and foremen) to which parents have access.

B on vertical line is obvious, in lateral line varies from highly specialized faculty of a musical instrument tuner, or a very high number spinner to the broad general faculty of first class engine driver or a foreman who is good leader of men.^{xxxii}

[dated 25.4.08]⁹⁴

⁹⁴ Text written on white folios, numbered 1-3.

Freedom of careers came with industrial development; which rendered possible such freedom with considerable continuity:

+ Continue: ----- Freedom of career + new methods promoted constancy on the whole by:

- (1) giving employer more to gain from continuity than he would have done if his plant per cap had been less;
- (2) Increasing the variety of range of work within easy geographical distance of each worker;
- (3) Increasing the variety of use to which the products of many factories, especially metal factories could be put; though not immediately;
- (4) Increasing partly by lowering costs of transport the output for sales across the seas, where as a rule more could be sold without glutting the markets.

Next it diminished the evils of inconstancy by:

- (a) bringing (partly by aid of Unions) increased independence and broadened education to working man; with a diminution of the tendency to spend vast sums on drink;
- (b) raising wages so that in normal times they gave a surplus over necessities which could be used in hard times.^{xxxiii}

*[undated]*⁹⁵

Unemployment may be divided into two genera:

1. That due to causes external to the individual
 2. That due to causes internal to the individual
- (1) May be treated with difficulties of adjustment inherent in complexity of modern industry.

The main text - like the date - is written in black pen; at the top of the first page is written in red pen "Influences of I.T. in red"; then there are a number of parts added in red pen (as comments on the main text) between the lines: we have put these additions in italics.

⁹⁵ Text written in black pen on white folios, not numbered. These pages are bound to a blue folio on which is written in red pen: "Varieties of "Unemployment". Adjustment".

(2) May be treated with

- (a) weakness of individual character
- (b) wrong grouping of the individual, where the inferior man gets more than his share in good times and less in bad.^{96 xxxiv}

[dated 8.4.08]⁹⁷

Base remedies for unemployment:

- (i) Habit of (not thrift, but) balancing accounts by people in irregular employment (a painter who has high wages in summer and is on hand in winter should be severely troubled)
- (ii) Adaptation of remuneration to ability. Elastic T.U. minimum, especially for elderly people
- (iii) Ethical condemnation and avoidance of
 - (a) purchasing things when others are known to be purchasing: especially at Christmas;
 - (b) following fashions rapidly, being "up to date".
- (iv) Sounder knowledge of causes of rise in prices of stock exchange securities; and neglect of such changes are mainly due to alterations in the necessary instrument; and - which is partly the same things - avoidance of sheep like induced, semi contagious habits of confidence or distrust.
- (v) Better knowledge as to how to read a balance sheet of a company, especially when it is being reorganized and is appealing for extra funds.
- (vi) Severer punishment of false statements when made for stock exchange purposes; and especially when made by directors of a company.

⁹⁶ Written in the margin of this last point: "Comp[are] figures quoted by Pigou, Prot Imp duties p. 69 f.n."

The book by Pigou which Marshall refers to is: *Protective and Preferential Import Duties*, London, Macmillan, 1906. The figures mentioned are related to the "analysis of time lost by workpeople through unemployment in the Amalgamated Society of Engineers from 1887 to 1895" (Pigou 1906: 69 fn. 1).

⁹⁷ Text written on white folios, not numbered, dated.

(vii) Conceivably at a future date, introduction when possible of artificial price unit for some transactions. But this is at present not likely to be capable of application without doing net harm[.]^{xxxv}
*[dated 18.3.05]*⁹⁸

The low wages (and profits) that accompany a failure of society to adjust production to the consumption which people's (i) tastes (ii) resources (iii) confidence will afford at the price on which producers have calculated, are like the pains which nature inflicts on those who eat poisonous or indigestible food. When they are acute they should be relieved by the physician. But if he could permanently remove them (without removing their occasion) he would do harm. And the charitable employment of "unemployed at full market wages["] is to do harm of the same sort.

But there is this trouble about remedies. If (say) a speculator avows philanthropy and makes a new road and takes occasion to offer less than full wages, that is apt to be smart-grasping business[;] therefore the work done at less than full wages should generally be such as will not yield a direct money income to the undertakers, whether private persons or a municipality. Municipal and private work undertaken to give employment should chiefly be of a decorative kind, or else philanthropic such as building a new wing for a hospital or laying out an improved playground, e.g. levelling some cricket pitches in Parker's piece⁹⁹ or elsewhere. I should propose wages of 2s a day as a minimum, with extra pay for skilled work.

Cambridge town could do a great deal of good work near the railway, especially in the way of laying out a park.^{xxxvi}

*[dated 24.9.04.]*¹⁰⁰

⁹⁸ Text written in red pen on white folios, not numbered.

⁹⁹ A Municipal Park in Cambridge. In the 19th century, it was one of the principal sports grounds used by students at the University of Cambridge.

¹⁰⁰ Text written in black pen on two white folios, not numbered.

CHAPTER III

WAGES, EFFICIENCY AND WELLBEING

1. Wages and employment

Labour – units of labour power – depends upon the number of hours + days worked, the quantity and quality of work done and the number of the workers.

Supply of labour would be increased by a 3 shift 6 hour day – fuller utilization of machinery – demand would be increased to at least an equal extent.

Supply of labour would be increased if a wage system could be devised and carried into effect which would remove inducement to unnecessary restriction of output. If the workers could always be sure to get extra pay for additional effort.

Every increase of this nature in the aggregate of supply of labour power increases the productivity of industry as a whole and immediately increases the demand for labour and for the other factors of production.

In many industries higher wages would actually be more profitable because [they] get increase in efficiency^{xxxvii}
*[undated]*¹⁰¹

Reduction of the hours of labour

A good many general economic doctrines are more or less consciously taken for granted in the arguments that are commonly adduced in favour of a general reduction of the hours of labour. Among those which seem to me indisputable are[:]

¹⁰¹ Text written in black pen on a white folio. Although the manuscript is undated, the handwriting seems to belong to a rather old Marshall. In the margin is written in normal pencil: “q RC Countries” (Roman Catholic Countries, according to the notes in the Marshall Library Archive catalogue).

(I) In work of an exceptionally exhausting nature very long hours are uneconomical: the worker would do more in a year and much more in his lifetime if he tried to do less in a single day.

(II) In many other kinds of work some diminution of hours would not appreciably lessen the output; and there would be a large net gain of health and happiness and opportunities for culture.

(III) A great economy in production would be effected by a diminution of the hours of labour which enabled two shifts to be worked instead of one in trades in which there is an expensive material plant; for them only about half as much would need to be deducted from the value of the product under the heads of Interest and Depreciation throughout time (not wear and tear) of the plant, before finding the wages of the worker.

(IV) The work of children at an early age is as a rule uneconomical to the nation in the long run.

Those economic doctrines taken for granted by some advocates of an eight hour day which appear to be disputable have reference to cases in which a shortening the hours of labour would diminish the output per worker and would not – through the adoption of double shifts etc – diminish the charges on account of material plant that had to be incurred for a given total output. I have made out a list of the chief doctrines of this kind followed in each case by a brief statement of the ground on which I regard them as invalid.

(V) It is sometimes urged that even though a diminution of the hours of labour might diminish the average output of those who worked, it would yet cause no diminution in the aggregate amount of work done, because it would bring into work men who are now unemployed.

This might be effected in either of two ways. (*A*) it might cause employment to be better organized and distributed: and (*B*) it might increase the amount of employment both temporarily and permanently.

(*C*) are not Present causes of irregularity of employment
 (i) Fluctuations of credit and general prices

- (ii) Uncertainties as to how much of any particular will be wanted
- (iii) uncertainties as to how much of this total demand will fall to any particular price
- (iv) uncertainties of success on the part of employers; and life and health and material agreement on the part of employers and employed (If there were no posts vacant, there would be no refuge for the employee whose employer had failed or contracted his business or could not agree with him. If there were no workers on the look out for employment there would be no resource for an able employer who wanted to extend his business, or who had lost some of his skilled workers through deaths or other cause. It is the vacant posts on the one hand, and the occasional unemployed men on the market on the other, that attract employees and employers severally to centres of localized industry)
- (v) Trade Union minima

.....

Let us then pass to the question raised under the second head (B) whether it is true that since a general reduction of the hours of labour would cause more men to be needed to do a given amount of work, it would therefore cause employers to bid against one another for labour, to take the employed off the market and to keep them permanently employed. It may be admitted that the immediate result of a diminution in the amount of work done per head would be a slight increase in the demand for labour, unless the change were brought about in such a way as to impair credit, to contract enterprise violently, and cause the failure of many employers. If not brought about in this violent way, it would cause employers with half finished undertakings, and also those with the expensive plant, such as tram ways to take on more men. But a reaction would at once set in. New undertakings would be checked by Trades that made plant for others, e.g. those that made tramway plant would be very slack; and after a while there would be fewer tramways, dearer tramways and perhaps even a smaller number of people employed on the tramways than before.

Ultimately then, no reason for more regular employment or employment more evenly distributed, than if population were less. That is a diminution of an output by 10% would act on employment in same way as a diminution by 10% of population; and there is no reason to believe that this would cause more steady employment.

Indeed ye expensive plant argument the other way. Closely connected with this last comes the argument

(VI) Such a change would raise wages. It might temporarily in those trades that had fixed plant etc. but permanently only to some extent as a reduction of the number of labourers. This would not be much any how more divisions are quotients. Therefore probable fall in wages per day, possible rise per hour: but not certain. Become possible more to pay per use of machinery. See opposite

(VII) Lowering of hours often followed by rise of wages.

But (i) sometimes special to a trade and not capable of extension; (ii) often due to general progress; (iii) often part of way in which rise taken out; (iv) often a severe counter rise (case of Australia)

case of general diminution of production but gold constant
money wages therefore unchanged

(VIII) although foreign competition puts a limit to extent to which a trade can safely limit production, yet there is no similar risk where no foreign competition.

But the effect of foreign competition is different from that here supposed. It does little more than accelerate a change that would have inevitably come about sooner or later in other trade. See opposite

Monopolies, time
Sub-permanent
Permanent
more
Migration of capital

(IX) It is argued that because some like to do their work more quickly it is better that all should[.]

Leathen¹⁰² notes on this with reference to need of medical opinion[.]^{xxxviii}

¹⁰² Most probably Marshall is referring to John Beresford Leathen (1864-1956), a physiologist.

[undated]¹⁰³

Appendix G.S.A.

1. The net advantages, other than its nominal remuneration, of which account must be taken when estimating the attractive force of an occupation¹⁰⁴.

It is obvious that when estimating the real value of nominal rate of earnings current in any occupation, allowance must be made for local and other variations in the prices of those things which are chiefly consumed by workers in it: the prices of staple foods are for instance more important relatively to those of clothes in the case of artisans under heavy physical strain than in that of clerks with equal income.

It is obvious that remuneration is not to be estimated by simple reference to an ordinary full worker's daily wage: allowance must be made for low earnings during apprenticeship in skilled industries; for early superannuation in exhausting industries; for uncertainty of outlook in such as are liable to be transformed or superseded; for opportunities of promotion to responsible posts (such are specially open to an intelligent engineer) for high piece work wages, and so on. Some of these items contain large conjectural elements, which may vary greatly with individual temperament¹⁰⁵.

¹⁰³ Text written in black pen on white folios, folded. At the beginning of the folder is written in blue pencil: "Reduction of hours of labour. Notes in connection with Labour commission. Confidential".

The proceedings of the Royal Commission on Labour took place from 1891 to 1895. The final Report was published in 1894 and Marshall had a notable role in the "drafting process" (see Groenewegen 1996: 81-295). Editing the final Report, Groenewegen writes: "The Marshall Library at Cambridge contains relatively little of direct relevance to Marshall's work with the Labour Commission. Exceptions are some of his correspondence and this one draft Memorandum on 'Disputes and Associations within Particular Trades Considered in Relation to the Interests of the Working Classes in Other Trades' (1996: 90). No mention is made of these notes preserved by Marshall.

¹⁰⁴ [Marshall's footnote:] "This Section, subsidiary to IV, III, §1, is abbreviated from my Principles VI, III."

¹⁰⁵ [Marshall's footnote:] The text in italics is handwritten whereas the text in plain type is from Principles, 5th edn. p. 551, 8th edn. p. 552): "*There are somewhat similar difficulties in regard to trade expenses. It is clear that for* WHEN ESTIMATING THE EARNINGS OF QUARRYMEN IN ANY DISTRICT WE MUST FIND OUT WHETHER LOCAL CUSTOM ASSIGNS THE *expenses of tools and blasting powder to them or their employers. But it is not clear how much deduction is to be made from*

Even greater difficulties are encountered in the more important problem of allowing for the influence of uncertainty of success. If the appropriate facts were generally accessible, the allowance might be based on estimates of average earnings of all those who have entered the occupation, account being taken of those who have failed so completely as to disappear: but the requisite facts are non accessible; and people's guesses with regard to them are greatly influenced by temperament. As a rule some deduction must be made for AN OCCUPATION OFFERS A FEW EXTREMELY HIGH PRIZES, ITS ATTRACTIVENESS IS INCREASED OUT OF ALL PROPORTION TO THEIR AGGREGATE VALUE. As Adam Smith insisted YOUNG MEN OF AN ADVENTUROUS DISPOSITION ARE MORE ATTRACTED BY THE PROSPECTS OF A GREAT SUCCESS THAN DETERRED BY THE FEAR OF FAILURE; AND THE SOCIAL RANK OF AN OCCUPATION DEPENDS much ON THE HIGHEST DIGNITY AND THE BEST POSITION WHICH CAN BE ATTAINED¹⁰⁶ through it¹⁰⁷.

Again account must be taken OF THE OPPORTUNITIES WHICH A MAN'S SURROUNDINGS MAY AFFORD OF SUPPLEMENTING THE EARNINGS WHICH HE GETS IN HIS CHIEF OCCUPATION, BY DOING WORK OF OTHER KINDS; OFFER FOR THE WORK OF OTHER MEMBERS OF HIS FAMILY. There is indeed much to be said FOR THIS PLAN WITH REFERENCE TO AGRICULTURE AND THOSE OLD FASHIONED DOMESTIC TRADES IN WHICH THE WHOLE FAMILY WORKS TOGETHER, PROVIDED THAT ALLOWANCE IS MADE FOR THE LOSS RESULTING FROM ANY CONSEQUENT NEGLECT BY THE WIFE OF HER HOUSEHOLD DUTIES. BUT IN MODERN ENGLAND TRADES OF THIS KIND ARE EXCEPTIONAL; THE OCCUPATION OF THE HEAD OF THE FAMILY SELDOM EXERTS MUCH DIRECT INFLUENCE ON THOSE OF ITS OTHER MEMBERS except those of his sons whom he introduces into his own trade though of course WHEN THE PLACE IN WHICH HE WORKS IS FIXED, THE EMPLOYMENTS, TO WHICH HIS FAMILY CAN GET EASY ACCESS, ARE LIMITED BY THE RESOURCES OF THE NEIGHBOURHOOD¹⁰⁸.

It is hardly necessary to observe that account must be taken of such facts as THAT ONE TRADE IS HEALTHIER AND CLEANLIER THAN ANOTHER, THAT

a medical man's income on account of the house, motor car and expensive entertainments which contribute to his professional as well as his personal qualification. Similarly it is difficult to assess the deduction to be made from the wages of an assistant in a fashionable shop, who is required to dress elegantly; or the addition to be made for the free supply of a footman's costly livery [...]"

¹⁰⁶ *Principles*, 5th edn. p. 554.

¹⁰⁷ [Marshall's footnote:] "Similar difficulties connected with the irregularity of employment are discussed fairly fully in IV x."

¹⁰⁸ *Principles*, 5th edn. pp. 555-56; 8th edn. p. 556.

IT IS CARRIED ON IN A MORE WHOLESOME OR PLEASANT LOCALITY, OR THAT IT INVOLVES A BETTER SOCIAL POSITION *and so on*. *Individual character asserts itself in regard to the relative importance of such matters and the prospect of high money earnings. But if* EACH ADVANTAGE AND DISADVANTAGE IS RECKONED AT THE AVERAGE OF THE MONEY VALUES IT HAS FOR THE CLASS OF PEOPLE WHO WOULD BE LIKELY TO ENTER AN OCCUPATION, OR TO BRING UP THEIR CHILDREN TO IT, WE SHALL HAVE THE MEANS OF ESTIMATING ROUGHLY THE RELATIVE STRENGTHS OF THE FORCES THAT TEND TO INCREASE OR DIMINISH THE SUPPLY OF LABOUR IN THAT OCCUPATION AT THE TIME AND PLACE WHICH WE ARE CONSIDERING.¹⁰⁹

LASTLY, THE DISAGREEABLENESS OF WORK SEEMS TO HAVE VERY LITTLE EFFECT IN RAISING WAGES, IF IT IS OF SUCH A KIND THAT IT CAN BE DONE BY THOSE WHOSE INDUSTRIAL ABILITIES ARE OF A VERY LOW ORDER. FOR THE PROGRESS OF SCIENCE HAS KEPT ALIVE MANY PEOPLE WHO ARE UNFIT FOR ANY BUT THE LOWEST GRADE OF WORK. THEY COMPETE EAGERLY FOR THE COMPARATIVELY SMALL QUANTITY OF WORK FOR WHICH THEY ARE FITTED, AND IN THEIR URGENT NEED THEY THINK ALMOST EXCLUSIVELY OF THE WAGES THEY CAN EARN: THEY CANNOT AFFORD TO PAY MUCH ATTENTION TO INCIDENTAL DISCOMFORTS: AND INDEED THE INFLUENCE OF THEIR SURROUNDINGS HAS PREPARED MANY OF THEM TO REGARD THE DIRTINESS OF AN OCCUPATION AS AN EVIL OF BUT MINOR IMPORTANCE. *Hence* ARISES THE PARADOXICAL RESULT THAT THE DIRTINESS OF SOME OCCUPATIONS IS A CAUSE OF THE LOWNESS OF *their wages when reckoned by time and not according to the work done*. FOR EMPLOYERS FIND THAT THE DIRTINESS ADDS MUCH TO THE WAGES THEY WOULD HAVE TO PAY TO GET THE WORK DONE BY SKILLED MEN OF HIGH CHARACTER WORKING WITH IMPROVED APPLIANCES; AND SO THEY OFTEN ADHERE TO OLD METHODS WHICH REQUIRE ONLY UNSKILLED WORKERS OF BUT INDIFFERENT CHARACTER, AND WHO CAN BE HIRED FOR LOW (TIME-)WAGES, BECAUSE THEY ARE NOT WORTH MUCH TO ANY EMPLOYER. THERE IS NO MORE URGENT SOCIAL NEED THAN THAT LABOUR OF THIS KIND SHOULD BE MADE SCARCE AND DEAR^{110 xxxix}.

[undated]¹¹¹

¹⁰⁹ *Principles*, 5th edn. pp. 556-57; 8th edn. p. 557.

¹¹⁰ *Principles*, 5th edn. pp. 557-58; 8th edn. p. 558.

¹¹¹ Text written in black pen on white and blue folios, not numbered. The text is very much amended, partly handwritten, partly typewritten and partly cut out from *Principles of Economics*, from both the fifth and the eighth editions. The text cut and pasted from *Principles* has several additions and corrections. The printed text is given, here, in small caps, handwritten text in italics and the typewritten part is

This § seems not to carry far: and the statements made in it as to changes in the relations among various strata are perhaps not the same as when Labour Commission experience and conversations with working men enabled me to speak on such subjects.

It must be kept: but not used, unless I am able to get in touch again with labour.^{x1}

[dated 22.12.22]¹¹²

2. Wages and Efficiency

Destroy worst land, or forbid it to be cultivated, more capital will be applied to fine cultivation of other land. The real value of wheat will rise: i.e. its value relatively to labour and to other products. Competition will transfer all this to landlords: all others will suffer.

Now the same thing as to feeble labour. If the labour is remunerated according to its efficiency, the stopping off of one strong worker would have the same effect for good and evil as the stopping off of two, or may be three, feeble workers. There would therefore be a small rise in the value of the products of the particular industry in which these people were employed, and a small rise of wages in that industry at an equal aggregate cost to the rest of the community. If however the feeble workers stopped off were equally distributed among all industries, then the result would be the same as that of a general check to population + the need for public support of those forbidden to work[.]

In this case, as distinguished from the cultivation of land case, there would be no one to be specially benefitted. For reduction of output would be likely (in the present economic phase) to check I[increasing] R[eturns] and consequently counteract from the workers' point of view the slight gain

reproduced in plain type. The title written on a blue folio is: "Appendix G.S.A. Supplementary notes on the remuneration and employment under settled conditions".

¹¹² Text written on white folio. In the margin of the text is written in normal pencil: "I should be sorry to lose this. I should have thought that it still was true (M)". On the reverse of this page is written: "It is the function of the [phrase apparently unfinished]. Aspirations towards the ideal may indicate the ultimate goal ["of" deleted probably by error by Marshall] high endeavour: studies of the actual may suggest the most effective methods of approaching it."

that he might otherwise obtain in bargaining with the capitalist.

This assumes the branches of production affected are not those which produce specially for the rich: but are catholic. In fact the branches specially affected produce for the working classes mainly; and therefore any rise in wages would be taken out completely in higher cost of products.

But it may be argued that wages are in effect by time; and in that case no doubt there would be a considerable rise in the wages of that class of the population who though not absolutely inefficient, could not obtain employment except in low grade work. Such persons are however very few; and in so far as they got higher wages, other classes would have to bear the burden. In fact it would not be other classes in general but the working classes almost exclusively^{xli}.

[dated 24.11.06]¹¹³

Influences on the side of demand for labour which tend to adjust remuneration to efficiency.

We must now revert to the elementary facts that the remuneration of labour of any particular kind, in so far as it is under direct economic influences, is governed on the one hand by demand: that is by the eagerness of purchasers to buy it at good prices; and on the other hand by the limitation of its supply: and that in the case of any kind of labour, as of any commodity, the supply of which can be increased by increased outlay, limitation of supply is itself controlled by the cost of enlarging the supply. Firstly as to the side of demand. There is a considerable direct demand by consumers for professional and domestic service. But the chief demand for labour in a modern [...] ^{xlii}

[undated]¹¹⁴

[In what follows we have some pieces written on the broad question of efficiency:]

Japan's cost of living, says Gothein p. 809¹¹⁵, has risen 2-3 fold in the last ten years: but efficiency not nearly so much.

¹¹³ Text written in red pen on blue folios, numbered 1-4.

¹¹⁴ Text written in black pen on a white folio, with the title written on a blue folio. The two folios are numbered in blue pencil 76-77.

Assuming the facts to be correct, the interpretation seems to be that the sudden increase in efficiency caused a great increase in wages and therefore in demand for working class commodities. It may be that profits were too high before, and that now the working man gets wages increased more than [in] proportion to his efficiency rightly, (from an economic point of view) because before he got less than his normal share. It may be that his money wages have not risen sufficiently to give him a much increased command over commodities at their present prices; but that prices have risen as regards food etc more than other things, because of a temporary failure of forecast by producers of conditions of demand.

In any case the facts given are a part of the process of adjustment of equilibrium¹¹⁶ of D[emand] and S[upply] after a temporary disturbance^{xliii}.
[dated 20.5.04]¹¹⁷

Further it is not to be contested that existing rights of private property in land, in other material things, and in business organizations, are not beyond the range of criticism. But while they are taken as the basis of our study, there is no ground for complaint in the fact that the remuneration of labour of any given order of efficiency tends to be equal to its net product at those points at which its services make the least contribution to the value (in terms of money) of the products on which it is engaged.

Those who are hired to work on poor land tend to receive equal wages with others who work on good land. For, if a rich farm were understaffed, so that the addition of another labourer would add much more to the value of its produce than the wages which a farmer of normal ability can afford to pay to each of those labourers (of normal efficiency) whom it is worth his while to employ; then the value of the additional produce, resulting from the work of each similar labourer on the rich farm, even after deductions for the use of farming buildings and plant, represent[s] a joint product of his labour combined with the generous yield of nature on rich land. If he were allowed to appropriate it, he would really share in the ownership of the land. As things are farmers on rich land and poor, with like access to the same markets, tend to keep their staff of labourers at that level at which a man of normal efficiency contributes to the coming power of the farmer's business a value equal to the current earnings (allowance

¹¹⁵ G.Gothein, *Der Deutsche Aussenhandel*, 1901. The book is in the Marshall Library archive.

¹¹⁶ Written in the text as a symbol: =^m.

¹¹⁷ Text written in black pen on white folios, numbered 1-2.

being included) for such men. It might be well that the State should claim for the people a share of that value of the land which is not due to buildings and other recent improvements in it. But setting that and similar changes aside, there appears to be no room for a better adjustment of the earnings of labourers on rich and poor farms.

Similar remarks apply generally to the employers in different manufacturing businesses some of which are earning high and others low profits. But the general statement is liable to modification in practice: partly because as has been argued in the text, the employer who understands how to attract men of more than ordinary efficiency, gets his labour in effect more cheaply than others do, while paying higher wages. The same qualities that enable him to do this are likely to make his business successful. And historians tell us that as a rule rich land, rich farmers (or peasants) and rich labourers have been found together in nearly all settled civilizations in which there was reasonable security of life and prosperity.^{xliv}

[undated]¹¹⁸

To sum up: The efficiency of human agents of production on the one hand, and that of material agents on the other, are weighed against one another and compared with their costs; and each tends to be applied as far as it is more efficient than the other in proportion to its cost. A chief function of business enterprise is to facilitate the free action of this great principle of substitution. Generally to the public benefit, but sometimes in opposition to it, business men are constantly comparing the services of machinery, and of labour, and again of unskilled and skilled labour, and of extra foremen and managers; they are constantly devising and experimenting with new arrangements which involve the use of different factors of production and selecting those most profitable for themselves.

The efficiency as compared with the cost of almost every class of labour, is thus continually being weighed in the balance in one or more branches of production against some other classes of labour: and each of these in its turn against others. This competition is primarily “vertical”: it is a struggle for the field of employment between groups of labour belonging to different grades, but engaged in the same branch of production, and enclosed, as it were, between the same vertical walls. But meanwhile “horizontal” competition is always at work, and by simpler methods: for

¹¹⁸ Text written in black pen on white folios, not numbered.

firstly, there is great freedom of movement of adults from one business to another within each trade; and secondly, parents can generally introduce their children into almost any other trade of the same grade with their own in their neighbourhood.^{xlv}
*[undated]*¹¹⁹

3. Efficiency and Wellbeing

Wellbeing: its nature and its conditions

A. Health: firstly because it is needed for activities. Patience under illness is a virtue; and therefore to some extent its own reward. But positive satisfactions – other than of kinds which are shared by all the higher animals, and perhaps by many of lower – such as flies – are derived almost exclusively from activities (Even eating would be less pleasurable perhaps if no activities were associated with it).

Of course mere rest is a source of pleasure to the weary; e.g. after a strenuous mountain climb; and nowadays work is seldom carried so far that rest from it is little more than a cessation of painful effort. But if one watches the cows and horses who are brought out of their winter stables at heights of some six thousand feet, the skips which they make are among the most hearty expressions of joy that I have ever seen.

B. Progress.

Progress has required a ceaseless increase in the plant (as well as the materials) of industry. Adequate stores of plant can be accumulated under an autocratic Government: but only by pressure from above, which is inconsistent with the full fruition of life. Therefore, the pleasures, which are to be got from mere activities, are common to nearly all people in health and under a generous Government. (If the Government is democratic, so much the better: but the position of the mass of the people

¹¹⁹ Text written and pasted on white folios, numbered 27-28 in normal pencil in the left margin of the page.

The text is mainly cut out from *Principles*, 5th edn. pp. 661-2; 8th edn. p. 662. The words given here in italics were added by hand by Marshall; The following text was deleted by Marshall with “omit” written in the margin in normal pencil: “By means of this combined vertical and horizontal competition there is an effective and closely adjusted balance of payments to services as between labour in different grades; in spite of the fact that the labour in any one grade is mostly recruited even now from the children of those in the same grade”. In the margin of the other paragraphs is written in normal pencil “Qe” (meaning “quaere” or “I question whether”).

under a despotic Government may be good. Every horse is under despotic rule: but, if his owner has sense, the horse is supplied with all the chief requisites of a happy life.[]]

The pleasures derived from activities are most prominent in youth. In maturer age they are more quiet; but they are, as a rule, more deep-seated and intense. Even the clerk, whose work is often so nearly automatic that much of it could be taken over by mechanical appliances – most of the work of the copying clerk has been so taken over – has satisfactions outside of his work: the young clerk looks forward to social activities, when his work is over; and the father of a family has his joys in them. (No doubt illness and inadequacy of income may make pain predominate over pleasure: but combats with single sticks are pleasurable in spite of – and perhaps partly in consequence of – the sharp cuts which may follow a venturesome essay.

What can economic studies do in the matter?

It can dwell on the essential importance of freedom of development and advocate short hours of work, with relays if necessary. It can jeer at wealth, as a means of ostentation; and glorify increase of productive capacity as a means of promoting well being. It can declaim against war as a destroyer of property: and can advocate short hours of work by agreement among those nations which are likely to be formidable in war. It can jeer at education as a means of distributing knowledge - the printing press working on a popular cyclopaedia is best engine for that work. It can speak of it with reverence as a means of developing faculty.^{xlvi}

[dated 26.4.22]¹²⁰

When the methods of industry and trade were nearly stationary, it was perhaps not unreasonable to regard success in business as largely due to uses of strategic skill, which contributed little or nothing to economic well-being. But the modern age is ever opening out new opportunities for uses of high constructive faculty in industry and trade; and strong foresight is needed to lay the basis of large achievement.^{xlvii}

[undated]¹²¹

¹²⁰ Text written in black pen on blue folios, numbered 1-6.

¹²¹ Text written in black pen on a blue folio, numbered in normal pencil page 3. In the margin of the text is written in red pen: "This should have been on white paper. It is text".

High achievement always brings the reward of consciousness of well spent effort and often brings (a) the respect of others and (b) some monetary reward.

It may fail to bring much of (a), because its difficulties are not generally recognized: and indeed a slight effort, which solves a problem of small difficulty, brings often a higher reward during the man's lifetime than a great effort which (α) shows later workers what routes are not practicable, even if it does not suggest one that is; or (β) though it does not deal with the fundamental difficulties of the problem in hand, and confines itself in the main to those which lie on its threshold[.]

In business money is a tolerably good measure of strength of effort subject to the conditions that[:]

(a) fortune has not been specially kind or unkind

(b) the man concerned has not been specially lucky or unlucky in his choice of (i) colleagues (ii) chief assistants. But of course what appears as good or bad fortune in such matters, is often due to abundant or deficient insight into characters.

In study success is sometimes due in large measure to accident: But in the main it is due to ability, persistence.

The delight in working at difficult problems because they are difficult and with little or no reference to the amount of money or of high repute which will be earned by solving them.

In short the pleasures of this chase are often the chief rewards of study. A student who allows his thoughts to be much influenced by monetary considerations may earn a good income and exercise a wholesome influence on life and thought in his generation: he is not likely to exercise the best influence of which he is capable in elevating thought or even increasing knowledge. A student resembles a preacher in that he cannot serve God and Mammon¹²² xlviii.

[undated]¹²³

But *a man* who works for the ultimate satisfaction of *the wants of others*, *seldom knows much about them*. It suffices that he can trust that the machinery of the market will bring *him* a fitting recompense for which *he* is willing to do the work.

¹²² From the New Testament (Mathew, 6-24). This part, written in black pen, shows in the margin a huge "Qe" (meaning "quaere" or "I question whether") in normal pencil.

¹²³ Main text written in red pen on a long white folio, not numbered. At the top of the page is added in black pen "Wealth in relation to well-being. Probably δ " (i.e. delete). The final part of the text is written in black pen.

The benefit to each from what he receives is greater in his judgment than that of what he gives up, to at least one of the two parties; while the other, if he does not gain by the exchange yet does not lose by it.

When equilibrium has been reached, demand price being equal to supply price, *the benefit to each* of what each receives no longer exceeds that of what he gives up in exchange: and when the production increases beyond the equilibrium amount, no terms can be arranged which will be acceptable to the buyer, and will not involve a loss to the seller. Thus the position of equilibrium of demand and supply is a position of maximum satisfaction *only in the* limited sense that the aggregate satisfaction of the two parties concerned *has* increased until that position is reached; and that any production beyond the equilibrium amount can not be *maintained* permanently [.]

This *position is not inconsistent with* the existence of great inequalities in wealth *and* consequential inequalities in the money measures of equal satisfactions and equal sacrifices on the part of members of different horizontal strata. *For* when any service is freely bought at a certain price, the exchange is, as a rule, beneficial to both parties; even though a penny may have as much real significance to one of them as a pound has to the other. When a labourer earning fifteen shillings a week is buying a *coat*, he may probably make a *good* bargain for himself, *though the coat* contains the work of operatives whose wages are *higher than* his own; and *may* have paid *some* tribute to an inventor who earns from the world wide use of his *machinery more in a day than he does in several months*. A more even distribution of income, attained by measures that did not throw the industrial organism into disorder, would no doubt increase "Aggregate satisfaction". But, as things are, any impediment to the labourer's purchases would be likely to hurt him more than anyone else.

Thus a free exchange generally benefits both parties: and it is likely to be carried up to the point at which the satisfactions of both, and therefore the aggregate satisfaction of the two, have all reached their maximum, so far as this particular set of exchanges go. This is true universally: it matters not whether either or both of the parties concerned be poor, or not. But, if the purchasers generally are poor, while the producers generally are rich, then a rise in prices is likely to be a social loss on the balance. This statement is, of course, consistent with the facts that a sharp rise of prices is accompanied, more often than not, by an improvement in the general conditions of trade; and that this can scarcely fail to induce an increase of industrial activity and employment.

A prevalent misconception in regard to the doctrine arises from the neglect to observe that arguments by which it is supported are often expressed in

terms of exchange value or price; and that *a* result, which is expressed in terms of real benefit or satisfaction, cannot legitimately be deduced from *such considerations* without the aid of some assumption as to the extent to which benefits or satisfactions vary with value or price. In fact *such* arguments rest upon the latent provisional assumption that a pound's worth of real benefit or satisfaction to any one person is likely to be about on a level, as regards substance and intensity, with a pound's worth to any other. This assumption cannot reasonably be made in regard to a society, in which there are great inequalities of fortune: and therefore the argument, as it stands, is not applicable to existing conditions; though it is of *good* service as a first step towards a study of them. This objection will be found not materially to invalidate the use of the doctrine in relation to discords between vertical sections, whether local or industrial. There is a prima facie probability that rich and poor are distributed in about equal proportions in, *say, the textile industries and the building industry. But it is* destructive of nearly all applications of the doctrine to discords between horizontal sections; *as for instance that of skilled mechanics, and the labourers who wait upon them*¹²⁴[.]

This doctrine is commonly associated with the name of Adam Smith, especially in Germany: he set it out more clearly and with greater force than any of *his predecessors*: *but* it had been gradually developed by earlier thinkers in Holland, France and England. He believed that the processes of free exchange, while working occasional ill, rendered so great services to all classes of the population, and especially to the poor, that authoritative interference with them would probably work more harm than good unless based on thorough knowledge, and guided by wise and disinterested judgment. He pointed out many important instances in which private interest worked against general well-being: but he was distrustful of the incompetent and venal British statesmen of his own day, who

¹²⁴ [Marshall's footnote:] "Of course differences in sensitiveness, in health, in craving for expensive amusements, or of display, and so on may cause two people each with incomes of £50 a year, or again two people each with incomes of £5,000 a year to differ considerably in the amount of annoyance which any given monetary loss causes them, or in the satisfaction which they derive from any given monetary gain. But when dealing with large economic movements, rather than with incidents in the lives of particular persons, these individual differences may reasonably be ignored. The gain by any one man of a satisfaction, for which he would be just willing to pay a pound rather than forego it, may be supposed provisionally to be equivalent to that of another satisfaction which someone else would also reckon at the value of a pound. *These considerations are considered from a different point of view in my Principles Book I Chapter II*".

proposed spasmodically to busy themselves with such matters. He believed that their decisions were not habitually governed by corrupt motives, pecuniary and political: *but* that even if their own purposes had been upright, their lack of technical knowledge would have generally made them the mere tools of designing merchants and others, to whom they had recourse for advice. For the knowledge of business details, possessed by interested business men, enabled them to argue plausibly that a certain Governmental intervention would be of public advantage; though in fact its cost would be very much greater than its benefits. *They did not lay undue stress on the facts* that nearly all the costs would fall on the public, and nearly all its benefits would accrue to themselves^{125 xlix} [undated]¹²⁶

The “operatives” with whom we are now specially concerned include manual workers: together with those lower strata of mental workers who have no exceptional genius, or rare qualities of any kind; but earn their living, much as nearly all manual workers do, by executing simple tasks under the direction of others.

The term “remuneration” is to be understood throughout in a special conventional sense; so as to avoid continual repetition of the statement that the attractive *force* of an occupation does not lie exclusively in its nominal “rate of wages”. To go more into detail: remuneration is taken to include any allowances, such as free coal or house-room, which are granted to the operative: they are as a rule elements of cost to the employer and of income to the operative on the same footing as money payments. On the other hand while any incidental advantages and disadvantages, such as those arising out of the character of his work, affect him directly; they as a rule affect the employer only indirectly through their influence on the price which he must pay for labour of any given quality. Account must

¹²⁵[Marshall’s footnote:] “*During the Middle Ages, such interventions commonly took the form of bounties or monopolistic privileges to particular producers or traders. Those who suffered from them in the first instance, and who took the most prominent part in attacking them, were rival producers and traders, belonging to the same, or nearly the same, social stratum, as those who were exploiting the authority of the Government for their own benefits.*”

¹²⁶ Text written on white folios, numbered 22-26 in blue pencil. The text, very much amended, is partly typewritten and partly handwritten in black pen. We have put the former in plain type, the latter in italics.

also be taken for varying degrees of constancy of employment and prospects of rise to more important and remunerative work¹²⁷.

2. The limited correlation of the personal efficiency of a worker to his contribution to the aggregate value of production, whether measured in terms of money or estimated in terms of social wellbeing (*Principles*¹²⁸, VI, III, 2).

The special use of the term “remuneration”, just adopted, is a mere arbitrary convention, made for convenience and without any constructive value. But we now pass to variations in the scope of the term “efficiency” according to its context, which are of vital importance.

The ordinary practice of using the same word in different senses, according to indications in the context is inevitable, but not without danger: and prominence has been given to this danger by some recent discussions as to the efficiency of labour. Earlier writings on the causes that govern the remuneration of labour made use of general phrases in many cases on which their successors have now during two generations worked increasingly to attain some sort of quantitative exactness: and these endeavours have greatly increased the confusion which is caused when remarks relating to efficiency as a group of personal attributes of the worker are brought into connection with others which relate to the effectiveness of his work in adding to the money value of a material product or a business organization. For some attempt at quantitative exactness can be made in regard to the money value of the effects of his work; while none is possible in regard to the group of qualities which constitute his personal efficiency: and the indiscriminate commingling of statements in which the word is used in these two senses can but lead to tangled thought¹²⁹. The personal efficiency of a worker is a group of qualities inherent in himself. It is likely to have been largely influenced by his surroundings; and when brought to bear in action its potency is dominated by his surroundings: but it is at any one time his own, whatever be his surroundings. The elements of which it may be made up are very numerous; and their relative importance varies with the occupation and other circumstances of the individual. But every one of them is needed in some parts of the public service or private undertakings; all great industrial

¹²⁷[Marshall’s footnote:] “A further discussion of these matters in my Principles, is abridged below. Appendix GSA, 2.”

¹²⁸ Written as a symbol.

¹²⁹ [Marshall’s footnote:] “The word “efficiency” is akin to the more familiar word strength; which has no absolute meaning; and to which everyone attaches a special interpretation when it is applied, for instance in relation to a horse, a rope, a speech, an army or the character of a man; or again to tea, tobacco, or wine.”

nations excel in most of them; but no two nations combine them in the same proportion. No exact measurement can be made of the relative industrial importance of any two; and the general principles on which a rough measurement must proceed have varied considerably from one century to another; and even from one generation to another¹³⁰.

The social value of a man's efficiency is almost as incapable of measurement as is the aggregate of qualities of which it is composed. It may for instance be estimated very differently according as the higher importance is attached to the abundance of the material comforts at the command of the people, or to the development of their characters and their intellectual and artistic attainments; but every estimate of this group goes on the assumption that the benefit conferred by his efficiency is to be reckoned according to its essence¹³¹, and without any reference to the money which the beneficiary is in a position to pay for it. Other things being equal a benefit to a rich man counts for no more than a similar benefit to a poor man: and if both of them happen to be idlers this statement has to be taken absolutely. But if they are both workers, then account has to be taken of the fact that a stimulus or support to the more efficient is of greater social value than if it fell to the less efficient. Now since the industrially efficient tends to become well-to-do; and the qualities by which wealth was acquired tend in some degree, as yet not certainly known, to be inherited; therefore there is some prima facie reason for assuming that a benefit or stimulus, which accrues to an active member of the well-to-do classes, is of greater social value than if it had accrued to a poor man. And further it is obvious that anything which induced a rich man to increase by one per cent, the accumulation of his capital, ready to aid in national production, is of more social value than if it had increased by one per cent the accumulation of a less opulent capitalist. It is further to be noted that in countries such as were Holland and Venice at their prime nearly all the rich and well-to-do were workers; and in certain countries as England is now, the large majority of them are active in the public service, or in intellectual achievement, or in business. On these grounds then, but

¹³⁰[Marshall's footnote:] "They include the qualities of physical and constitutional strength, and the mental qualities of manual dexterity and skill: and beyond these they include patience, resolution, energy and self-mastery; knowledge and intelligence and artistic instincts; versatility and adaptability; initiative, inventiveness, sense of proportion, and the power of rising to emergency; honesty, solidity of character; order, unselfishness and affection in family life; patriotism; ethical, social, and aesthetic idealism."

¹³¹ In the margin of the text from "to the development" up to this point there is a "o" (meaning "delete") written in normal pencil.

on these alone, there is some logical justification for the implication which underlies much current writing and discourse on public affairs to the effect that from the social point of view the wellbeing of a member of the well-to-do classes is more important than that of a member of the lower industrial classes.¹³²

We pass into a wholly different atmosphere when we proceed to consider the measurement of efficiency from the monetary or market point of view. Here a man with a thousand pounds to spend is the equivalent of twenty with fifty pounds each. If he is willing to pay a fiftieth part of his income for a thing, his demand acts on the demand for the services of those who *cooperate* in its production to exactly the same extent as if each of the others were willing to pay a fiftieth part of his income for a fiftieth part of it. There is therefore a distinct opening for exact numerical estimates of the relations between the values of products and the market values of the efficiencies of those who take part in the production¹³³.

One more remark may be made here. The rich and the poor are interested, though in different ways in the prices of the common necessities of life. But some of the deeper discords between sectional interests arise out of the fact that there are many markets both for goods and services in which none but the well-to-do are buyers, and a few which are affected only by rich buyers. The market value of the services of able portrait painters for instance is entirely dependent on the demands of public bodies and of well-to-do individuals: the demand of other individuals has no influence on their value. It is true that the demand of an industrial stratum for any sort of service is generally the more influential, the lower the stratum is, provided the service rendered falls well within their power of purchase because the lower strata are more numerous than the higher: the market value of the services of an inventor who makes an improvement in common felt hats, or common bicycles or common soap, is greater than if his improvement had affected only the money value mounting of diamond

¹³² Between the lines, written in normal pencil: "Perhaps affix to the end of the paragraph, the long footnote on social value which is now at the end of the paragraph. 1.10.12".

¹³³ [Marshall's footnote:] "Although a rich and a poor man pay about the same price for say a pound of butter, if the poor man can afford to buy it, and so far they stand in the same position to its price. Yet there is this fundamental difference that though the one might be willing to pay ten shillings for it rather than forego butter altogether; and the other may be in doubt whether he can afford to buy it even at the ordinary price. This is the kernel of a great difficulty with which modern methods of economic analysis are grappling".

tiaras or the most expensive sort of motor cars or a costly perfume. It is in fact far from being the fact that the course of industry is governed by the demands of the rich. But when a thing is costly, as for instance the earlier bicycle was, the paying demand for improvements in it, came from the well-to-do; and the masses of the people have inherited a large share in the benefit of their outlays. To sum up: no service, no kind of efficiency receives any market demand from anyone beyond whose reach it is, however socially important it may be: Services rendered to the rich generally receive a market demand far in excess of their direct social value; but in a few cases the indirect benefits, which ultimately result from that apparently wasteful demand, render that demand socially economical. *It may be observed that the vagueness inherent in the notion of social value could be reduced to comparatively small dimensions, if we were to assume that social wellbeing consisted in the aggregate satisfaction of all desires, whether wholesome or morbid, whether elevating or degrading. For then it might fairly be assumed, in accordance with Leibnitz's Bernoulli's suggestion that everyone's happiness would be increased in equal percentage by an equal increase in the excess of his income over one that which would yield the bare necessities of life¹³⁴. On that assumption, the social value of one efficiency which administers to the desires of various strata of rich and poor in the same proportions as another would be in the same ratio to it as their respective money values are; while if one of them administered to the desires of lower strata than the other social value would be higher relatively to money value in its case than in that of the other in a ratio that could be calculated arithmetically when the relevant facts were known. Most people do in fact understand their own needs fairly well, and most desires are healthy; and therefore this method of calculation would afford a rough measure of the ratios which the social value of different efficiencies bear to the corresponding money values¹³⁵. But such a measure *for it* ignores morbid and other unworthy pleasures; *and it* takes no account of the needs of *posterity*; *for only* a small share of the contributions to social wellbeing made by *a creative mind, such as Aeschylus, or Beethoven, Archimedes or Watt* accrued to *the own country or the generation to which the genius belonged. Also the measure* fails to recognize *such* benefits *as* result from the labours of a great musician among a people whose musical faculties are dormant *so* that they care little for the education which he is giving them: *or from* those of a civil engineer*

¹³⁴ In the margin of this paragraph, there is written in normal pencil and deleted: "This ought to be in the text either here or elsewhere. 16.3.13".

¹³⁵ [Marshall's footnote:] "A little is said on this subject in my Principles book III, Ch VI, §6 and appendix note VIII".

whose efforts to develop the natural resources of a backward country meet with *little* support.¹³⁶

3. Many conditions, other than the worker's personal efficiency, affect his output.

In a small self-sufficing society, where everyone took a share in every part of the work, each might fairly be said to have produced and to have earned a definite fraction of the whole output. If, for instance he was a worker of average efficiency, and there were thirty workers in all, a thirtieth part of the whole would appear to belong to him: if he did half as much again as an ordinary worker, his share would be a twentieth of the whole and so on. This does not imply that his part in the production was uninfluenced by the cooperation of others, (for the aggregate output of the whole group working together would probably be very much more than the sum of what each could have done if working by himself): *it* implies only that in this simple work the efficiency of each producer could be compared easily with that of others; that the share of the aggregate product to be attributed to him was proportionate to that efficiency; and that he would be likely to take out his share in equal proportions from all the various parts of the product.

There is for instance no great violence in the supposition that all Laplanders distribute their energies in about equal proportions over all the small variety of tasks for which their conditions offer scope¹³⁷; that if one of them is half as efficient again as another in one task, he will be about half as efficient again in any other. If we further suppose that each Laplander has a stock in reindeer, oil, canons etc, about in proportion to his efficiency; it may then be reasonably assumed that a Laplander of average efficiency in a small "nation" of ten thousand members, produces and enjoys a ten thousandth part of the aggregate income; and that the shares of others vary in like proportions to their several efficiencies.

Even in this simple case there would be no absolute correlation between the intrinsic qualities of a man and his constructive efficiency. For if we could look back a good many centuries we should probably find a man of equal natural ability and energy turning his resources to much less account. A grant therefore of what appears as the product of the modern Laplander's work is due to his utilization of social wealth in the form of knowledge, technical skill, and orderly procedure based on long

¹³⁶ In the margin of this text, written in normal pencil, for the first part "Qe" (meaning "quaere" or "I question whether"), for the second "Omit".

¹³⁷ Beside this period the word "omit" is written in the margin in normal pencil.

experience: and in the modern world the share which any individual's personal qualities have in the contribution to the national income for which he is remunerated is seldom very large, and is often small. Let us look into this.

Given the personal elements of efficiency which belong to a man that is his bodily health and strength, his energy and willingness to exert himself, his steadfastness and uprightness, his sagacity and judgement and his specialized skill and knowledge - the apparent output of his labour will depend on many conditions and on the aid of many contributory agencies. First come those which specially affect him, as distinguished from other workers in the same department of the business in which he is employed: such are the quality and appropriateness of material and of the machinery and other appliances which are assigned to him; the regularity and promptness with which are met his requisitions for material and for the aid of other workers whose efforts need on occasion to be associated with his; and so on.

Next come those which affect his apparent output in common with that of every other worker in the same business, or at all events the same department of it. These include the technical, administrative and commercial vigour of the firm: the felicity of its methods; the organization of its various departments individually and in relation to one another; and the judgment, foresight and promptness of the adaption of its procedure to the varying conditions of the markets in which it buys and of those in which it sells; and so on. These are to be regarded primarily as the conditions which govern the profits of a business working with a given amount of capital: but they affect indirectly the addition to the total earning power of the business which accrues from the aid of an additional employee or an additional machine of a given intrinsic efficiency.

A third group of conditions and agencies of wider scope includes the technical and commercial proficiency of the whole industry of which the firm is a member; also of those from which it buys and those to which it sells: and here the general world stock of shrewd inventions and of sound scientific and technical knowledge come into the account.

Lastly come those conditions and agencies whose scope is coextensive with the industrial life of the country. Such are her general inability, which depends on her provision of roads, railways, watercourses, harbours, telegraphs, newspapers, etc., her political and commercial security; the soundness of her credit, private and public: and her commercial relations with other countries, which depends partly upon the nature and extent of their industrial development.

The third and fourth of these groups have an important bearing on the broader issues of social philosophy. They come to the front when extreme claims are made by a manual worker to “the product of his own hands”, into which he absorbs what is really the product of scores of generations of mental work, and self-control, together with some mental work.

And they come to the front again when claims almost equally extreme in the opposite direction are made by a capitalist to do what he will “with his own”. The former extreme claim failed to recognize the real complexity involved in the apparently simple term “The product of labour”. And this claim fails to recognize how the possession and enjoyment of private wealth has no absolute a priori authority behind it, but is merely that part of the product of the activities of the whole community, in conjunction with his own and perhaps those of his ancestors, the conditional control of which has been assigned to him, or been allowed to descend by inheritance to him. The same fundamental principles of equity and expediency which are opposed to any violent and sudden curtailment of the privileges which now attached to private wealth are equally opposed to the absolute and unconditional appropriation by any one of a product which, though superficially that of his own hand and mind, was in fact the composite result of multitudinous efforts.

For the present then we ignore these last two groups of conditions. We assume that everyone may turn to his own account all existing stocks of knowledge, all the assistance which social organization affords, and all lawful uses of public property. We assume further that each business has the right, subject to the payment of taxes, etc., to take to itself as net earnings the whole excess of its receipts (or gross earnings) over its outgoings; and we inquire how to determine that contribution to its earnings which is made by an employee is ascertained.

Speaking broadly, it is clear that his contribution is equal to gross value of any service which he takes part in rendering, after deduction has been made for material consumed by him, for the aid of any plant that he may use, and for the co-operation of other exertions of any other persons which conduce to that product, whether they are manual or mental workers, whether they are wage earners, salaried officials, or the employer himself. The value of this contribution may be called his net product: because it is his apparent gross product subject to deductions for all outlays and services making for its production, which were not rendered by him: but this net product is not part of the net earnings of the business; for speaking broadly the employer pays its equivalent as his remuneration: his remuneration is a part of the outgoing of the business. The problem to

which we now turn is the relation between this net-product of his can be ascertained and its relation to his earnings.

But before passing to that it may be noted that the [term]¹³⁸ “net earnings” of a business, is used sometimes broadly and sometimes narrowly, according to the convenience of the discussion in hand and the nature of the business: there is no fixed or generally recognized usage in the matter. When a man is working a business with his own capital, his net earnings or profits are commonly taken to include all the earnings of his capital: but sometimes he deducts from them interest at the current rate on any capital that he may have borrowed to supplement his own, and perhaps also on his own capital. A joint stock company sometimes deducts the salaries of its directors as well as of those who are commonly regarded as its employers: it deducts usually the interest which it pays on loans, and sometimes the dividends at fixed rate on its Preferred Stock. These divergencies emphasize the fact that the word “net” signifies “after making the appropriate deductions”. It has no absolute meaning: the nature of the appropriate deductions must be gathered from the context¹³⁹.

4. Methods of estimating and developing the efficiency of the individual worker and the contribution which he makes to the earning power of the business in which he is employed.

The relations between employer and employee generally contain some element which have little connection with business: and even from a merely business point of view account is to be taken of the fact that the trust, esteem and affection of his staff are a valuable business asset, of a kind which his machinery cannot supply. But just for the moment we leave this also out of account; we watch him only when he is considering how much it is worth his while to pay a certain employee from the same point of view as he would consider how much it is worth his while to pay for a certain machine. (The private employer is generally assisted by officials of various orders: and, as we are not here concerned with the points of difference between his affairs and those of a joint stock company, we may regard the Directors and Manager of a company as the employer; the subordinate officials as corresponding to those of a private firm).

Speaking broadly, it may be said that instinct, based on experience, is the chief guide in estimating first the character and intensity of the broad faculties that constitute general efficiency that will be needed for the work;

¹³⁸ Written “turn” in error.

¹³⁹ In the margin of the text from “the fact that the word” up to this point there is written a “∅” (meaning “delete”) in normal pencil.

and secondly the labour and cost of the requisite special training, mental and manual needed for it. This instinctive process is in substance a somewhat refined system of book-keeping. The highly organized methods of "cost keeping" which are now being developed in America and elsewhere, are laying the foundations of exact scientific knowledge in regard to the net contribution to the earning power of a business which is made by each employee and each machine: and this study of details, for which the mechanical organization of a large joint stock company presents some special advantages may ultimately afford a better basis than any which exists at present: for a forecast of the expense to which a business will be put in order to obtain the labour required for some projected new process, which has as yet hardly merged from the preliminary "laboratory stage".

¹⁴⁰This method is a great creation of originating genius. It has vast work to accomplish in the steel and other industries, which are rapidly changing their shape; and especially when the operatives consist largely of men who recently migrated from backward countries to great centres of American or other progressive industry. But in some matters its exponents appear to assume almost unconsciously the existence of a greater gap between the intelligence of the operative and the expert who arranges his work than is universal in old industrial countries. ¹⁴¹They claim to have derived their inspiration from the "Staff Organization" of the German army: and it is possible that their methods may greatly hasten the development of advanced industrial methods in central and eastern Europe, in Asia, and elsewhere: and that ultimately it may go far towards transforming nearly all industries¹⁴².

¹⁴⁰ Written in the margin in normal pencil: "? ∂ [meaning delete] till end of p. 16. Refer to IT [*Industry and Trade*]".

¹⁴¹ In the margin of this paragraph, written in normal pencil: "IT 371".

¹⁴² [Marshall's footnote: "Mr F.W. Taylor and others working on lines similar to his are engaged in perfecting measures for educating the intelligence and evoking the initiative of the ordinary worker. They propose for instance to watch for men who respond with exceptional success to the new stimulus which is applied to them: to take them away from the bunch and constitute them expert foremen specialized for supervising manual operations of a kind which they have themselves mastered. Thus, instead of allowing a single foreman to be responsible for guiding and controlling a limited number of operatives in all matters, they would set up a separate foreman for each subdivision of the work of a larger number of men: one being responsible for the condition of the machinery and especially the cutting tools; another for supply of material and other requisites for the work; another for the manual operations themselves and so on. In the case of a large firm such a foreman would be instructed by a highly paid master expert; who

But they are perhaps inclined to underrate the extent to which results, somewhat similar to those for which they are striving, have been already reached in some great staple manufactures, whose general methods of production have not changed greatly during a generation. In the British cotton industry, for instance, employers and employees alike have learnt almost exactly what rate of wages are required to maintain the requisite supply of labour for each particular operation. The incidental advantages and disadvantages of each class of work are well understood: uncertainty of employment is gauged: reckoning is made with the prospects of adults and young people, and of men and women; in short the family can be treated as a unit, with allowance for the fact that steel and other dominantly male industries are present throughout the cotton district. In such a case observation and experience afford exact and certain data, in regard to the money or market value of those particular grades and shades of efficiency, which the industry requires. There are of course differences of opinion as to whether the employees as a body are getting a reasonable share of the whole earnings of the industry: and again as to whether minor improvements, by which machinery is made even more independent of the worker, and at the same time speeded up a little more, increase the total strain involved in each hour's work; and what special modifications in piece-rate-wages are consequently due. But such differences of opinion generally are of small compass: and unless there is a feeling in the air that the time has come for another trial of strength between the organization of employers and employed, a compromise fairly satisfactory to both sides can generally be reached after discussions, for which organized provision is made in advance¹⁴³.

should explain to him the reasons for every detailed instruction, in order that he may in turn transmit the teaching to those under him.

A further remark may be hazarded, which points to a certain limitation of a new method on its purely mechanical side; but from a broad social point of view is perhaps not altogether detrimental. It is that even after the cost keeping has attached fairly accurate price equivalents to each elementary movement of which the manual process is made up; instinct may still be needed for estimating the aggregate effort involved in a number of elementary movements taken in a prescribed order: for simple addition will seldom give a correct result. It is possible that the same method may be extended to a psychological analysis of the mental processes required: that will probably be a more difficult task, more uncertain and dependent on the aid of practised instinct. But until it has been achieved, some of the results foreshadowed by the more ardent advocates of the method seem unlikely to be fully reached."

¹⁴³ [Marshall's footnote:] "So far does this mutual understanding reach, that the most frequent cause of disputes in the earlier phases of the industry have now

The speed of textile machinery, and the scope of each mule or loom, or other machines are known exactly; and the experts, who decide controversies as to details, are able to apply mathematical calculations in a great part of their inferences from facts ascertained with absolute accuracy. But as a rule rougher methods must be used to decide whether any individual about comes up to the normal standard of the class of workers to which he is supposed to belong, and is worth the current rate of remuneration or some deviation from the current rate is appropriate to his case.

We are not concerned now with the obstacles *to* adjusting such deviations exactly. The small employer, who knows *each* employee personally, can generally overcome them unless he is hindered by trade-union influences. But a large firm seldom attempts to make the adjustment very exact, even where there is no definite opposition to its doing so. Payment by piece work sometimes adjusts the remuneration of different individuals to the value of the work they do for the firm more closely than payment by the hour a day. But under it an operative, who gets twenty per cent more work than another out of expensive plant, and receives only twenty per cent additional wages under a simple piece work system, while his work may really be worth forty or even sixty per cent more to the firm: so that it may be more profitable to pay by time, and weed out those who do not turn their plant to good account. Or again payment may be based on piece work with the double provision that a certain rather high pitched "task" must be performed; and that a substantial progressive Bonus in addition to the piece work will be paid on all output in excess of that task. Arrangements of this kind have in great number been worked out in many countries and industries: they are congenial to the American temper; and they are

nearly ceased. The employer is expected to furnish materials and plant by which a man of reasonable efficiency can earn the standard wage at the standard piece rate; or else to make such special addition to the standard rate as will enable the standard wage to be earned. There is obviously room for differences of opinion as to whether he complies with these conditions; and the amour propre of either side is enlisted in support of the view that the cause of the failure to earn full wages did not rest with him. But the matter is referred, in the first instance to local representatives of employer and employed: as a rule they come to an agreement, and their decision is accepted. If not, the General Secretaries of the Employers and Employees Association are summoned; their joint verdict is given quickly, and is decisive. See Labour Commission Report also Chapman and Webb, Industrial Democracy, II, III."

In the margin of this footnote there is written in normal pencil "IT 383".

technically well¹⁴⁴ adapted to the engineering and some other industries in which individual workers, or sets of workers, are responsible for the control of costly plant in work, in which hasty negligence can be detected by definite mechanical tests¹⁴⁵.

How far these methods can be *extended* beyond the particular group of manufacturing industries in which they have chiefly originated, the future alone can decide. Meanwhile we may be content with the well-known fact that the *semi-instinctive* estimates in ordinary use have their roots deep down in human nature: in so much that an experienced employer or foreman can tell by mere inspection of work even in an industry, of which he has little or no technical knowledge, about much general efficiency and how much of special training will be required of each set of operatives; and about how much money earnings will suffice to maintain a good supply of them¹⁴⁶.

¹⁴⁴ From “The speed” up to this point, text typewritten with some additions shown in italics here. Page numbered GC17. Along the margin of the entire page “Keep” is written in normal pencil.

¹⁴⁵ [Marshall’s footnote:] “Objection is sometimes raised to these methods on the ground that they induce men to over-strain their nervous systems, and to age prematurely: the evidence on the subject is very conflicting. It is probable that their harmful influence has been exaggerated by those who desire the employment afforded by the particular occupation to which they are attached, to be spread out as widely as possible; and dislike any arrangements which bring into a strong light any deficiencies of their own in ability or energy. And it is probable that such harm as these methods have caused will be stayed by the tireless resource of those men of genius who have worked and are working at them: for independently of all social and ethical considerations, it is not to the interest of a firm, which it expects to live long, to exhaust the strength of those who might have been chief sources of its advancement when their vigour had been mellowed by a larger experience. The large supply of Slavonic and other manual labours on which American employers can draw; and the wide gap which separates such workers from the hands of American industry have perhaps prevented sufficient attention being given to devising checks and remedies for such evils as may attach to the present “first draft” of the new methods”.

In the margin of this long note we find written in normal pencil “∂” (meaning “delete”).

¹⁴⁶ [Marshall’s footnote:] “An even stronger statement than this can be made if it be allowable to record some memories by a mere onlooker with no special knowledge or fitness of any kind for the task. In the years of my apprenticeship to economic studies, between 1867 and 1875, I endeavoured to learn enough of the methods of operation of the greater part of the leading industries of the country, to be able to reconstruct mentally the primitive, vital parts of the chief machines used in each, neglecting of course all refinements and complications. This endeavour

[...] business men who are endeavouring so to modify and adjust the resources which they can command as to obtain the most profitable results. The demand of an employer for a certain class of operators may increase, because he thinks that the simple addition of one or more of them to his staff will add more to the earning power of his business than their cost to him (in regard to a contraction of his staff inverse statements apply, subject to some small differences in matters of detail, which need not be considered here). He will as a rule have to allow for some additional incidental expenses to say nothing of his own trouble: but that may stand over for the present: we here consider only the case in which an additional operative can be employed without disturbing the other arrangements of the business: this simple case gives the keynote to broader issues¹⁴⁷.

The employer may have special reasons for seeking an operative of greater ability than is normal to his class; or he may see his way to utilizing the services of one who does not come up to its normal standard: but such exceptional cases are merged in a broad view, in the representative problem of an employer who contemplates paying the current wage of a certain class of labour to a man whose efficiency reaches its normal level.

It is not necessary for our purposes that the work of this particular man should be embodied in a particular part of the produce of the business, so that it can be visualized. This may happen if the owner of a large sheep-run not heavily stocked, is considering whether an additional shepherd would add so many to the number of lambs who reached maturity, that his

was associated with an attempt to form a rough estimate of the faculties and training needed for working each, and the strain involved therein: and my guide – if, as generally happened he was the employer or a foreman – would generally answer my inquires as to the wages which each was receiving. After continuing on this course for some years I begun to ask my guide to allow me to guess the wages. My errors did not very often exceed two shillings a week on one side or the other: but when it did, I generally stopped and asked for an explanation; and it seldom failed to be comprehensible even to an outsider. Sometimes it was to the effect that the work was easier or more difficult than it appeared: sometimes that the demand for it was largely season or liable to variations due to fashion and other causes: sometimes that a high grade operative was set to rather low grade work, because his proper [...]”. In this Marshall’s practice see Whitaker 1996, I and Groenewegen 1995.

¹⁴⁷ [Marshall’s footnote:] “Thus the keynote of the science of dynamics is set by the study of the movements of a particle under the action of a single force; although such cases are *not within the range of direct observation- [...]*”.

wages would be well covered by their value: but such cases are rare; and our purpose will be served well enough by one of a more common type¹⁴⁸. Let us suppose for instance that the management of a large banking company is doubting whether the occasional delays inflicted on its customers when all the clerks appropriate for attending to them caused more loss to the bank than would be covered by the employment of an additional clerk, it is in effect weighing the net product of his work against his salary (it being supposed that no additional office space is required for him). If it decides in the affirmative, its action will slightly increase the demand for such clerks. If many businesses are making similar decisions, then demand will press on supply and there will result a rise in clerks salaries. In the opposite case their salaries would tend downwards. The decision would turn as a rule not on the importance of some specific task, which would be left undone if the additional clerk were not employed, and would be isolated and visualized as his net product. It would turn on the judgment of those in the best position for judging whether the work of the firm would be made smoother and better to an extent which represented rather more than the salary of a clerk, if the number were increased by one; together with a second question whether the further improvement would follow on the addition of a second, yet its value would not quite reach to a clerk's salary.

Here for the third time (see above II, vi, i and III, x....) we are brought to consider the necessity for studying the action of the forces of demand and supply at the margin at which they are evenly balanced.¹⁴⁹ The additional clerk whose services any commercial firm seeks will probably contribute neither more nor less to its net earning power than any other of equal efficiency: if that other were afterwards removed, the business of the firm would proceed just as before either change was made; (at all events as soon as the new hand had become familiar with such personal and other details as were peculiar to that firm). But if when the firm was on the verge of deciding that it was undermanned, and must increase its staff, the value of the services of one of its existing staff had been estimated, on the supposition that his place if vacant could not be filled; the result so obtained would not be the true net product of a clerk, but something more. For the removal of his services might disarrange the firm's business. The disarrangement would probably not be serious, if he were only one of

¹⁴⁸ [Marshall's footnote:] "An illustration based on the conditions of sheep-run is reproduced in Appendix GSA 2". In the margin of this footnote is written in normal pencil "∅" (meaning "delete").

¹⁴⁹ "Qe" (meaning "quaere" or "I question whether") is written in the margin of this paragraph in normal pencil.

many: but, in so far as there was any disarrangement, the guidance given by the study of such a case would be misleading. In the same way, if the business of the firm required one additional clerk; and through some error of judgment or personal bias, a second had been added, the consequent addition to the earning power of the firm would fall short of the true net product of a clerk under representative conditions.

To focus these considerations: movement on the margin of employment must be studied, because the margin is by hypothesis the part of the field at which those who are in the best position for forming a judgment are in doubt whether the number of the staff is just that which gives the best results to the firm. If the firm had been clearly either understaffed or overstaffed; then the judgment of competent persons that in the one case the firm would gain at the current rate of salary, by a small increase of its staff in the one case or a small reduction in the [...]

6. Though the changefulness of modern industrial methods disturbs the relations between earnings and efficiency in different occupations; it increases the activity of the employer in estimating the contributions, which his employees severally add to the earning power of his business: and it thus tends to redress the disturbance which it causes.¹⁵⁰

We may here take for granted, as already discussed elsewhere, the manner in which the rate of remuneration of any class of labour will rise or fall, as the contributions which it can make to the earning power of business of the class to which it is appropriate rise or fall, on the tacit assumption that the methods of those businesses remain unchanged¹⁵¹. But in the modern world the chief readjustments of the remuneration of labour are associated with changes in process; which enable some sorts of labour to yield a better result relatively to their costs than others, that had the advantage before¹⁵².

¹⁵⁰ Written in the margin of this page in normal pencil is "This § has been used in MOCC [*Money Credit and Commerce*] IV, II, §2".

¹⁵¹ Text deleted at this point: "the only adjustments and readjustments which at contemplated were such as might arise from changes in the numbers or efficiency of the class of labour."

¹⁵² This last paragraph is similar to one in *Money Credit and Commerce* (MCC p. 239). Text deleted at this point: "The two sets of changes are "associated" together: but neither can be said to cause the other. For every new invention and improvement in process is likely to induce some substitution of one kind of labour for another: and every rise or fall in the cost at which any particular kind of labour can be obtained is likely to obstruct or promote the adoption of processes in which it plays a prominent part".

And there is a further complication: almost every change in process affects not only relative demands for different sorts of labour, but also the relative demands for labour in the businesses which adopt the new process, and for machinery and other plant; *for* the change is *nearly always* in favour of the steel hand against the human hand. But there is no such general rule in regard to the competition for employment between different grades of labour: for the semi-automatic machinery, which is characteristic of the modern age, is tended in some cases by labour which is more skilled, and in others by labour which is less skilled, than that which is displaced. And when it is said that machinery and other plant displace labour from certain businesses, it is to be remembered that the machinery is itself the embodiment of many sorts and grades of labour, and business enterprise, arranged with forethought and sustained by more or less patient waiting for its result¹⁵³. This competition for employment between present labour and the accumulated results of past labour is a vital element in the ~~problem~~ ~~of the~~ modern distribution of the national *net* income.

Thus *A* chief part of the work of the alert employer is, *indeed*, to consider whether he can increase the earning power of his business by substituting a process, which will make use of certain classes of plant and labour, for another which makes use of other classes of plant and labour. If his new requirements can be satisfied from plant and labour, the market values of which are fairly settled by prolonged steady experience he can estimate beforehand the advantages of the new process very much on the lines of the last section; except that he weighs now the aggregate cost of all the new factors of production that he will require against their joint output.¹⁵⁴ If not, he must rely to a greater or less extent on his intuitions, based on experiences, as to the remuneration that will need to be given for work that demands certain orders of "general personal efficiency" together with certain amounts of specialized training; proceeding on the lines indicated in the section before last.

If his business is one of moderate size, he need take little account of the chance that his new demand for any particular kind of labour will materially affect the price at which it is to be obtained. But a modern giant business must sometime look further ahead in regard to such matters; and they become very important when we are considering the general addition of a new process by a large industry. We must then turn to the problem of the action of a joint demand for a number of factors of production which

¹⁵³ This paragraph is similar to one in *Money Credit and Commerce* (MCC p. 239), with several changes.

¹⁵⁴ This paragraph is like one in *Money Credit and Commerce* (MCC pp. 239-40), with several changes.

complement one another in a certain process of production, which has been already noticed (II; vii, 1).

The main point to be observed is that if the supply of one of two groups of factors which thus complement one another can be quickly adjusted to changes in the demand for it, without appreciably raising the price at which it can be obtained; while the price, at which the other group can be obtained, is very sensitive to changes in the demand for it: then changes in the joint demand for the two will act with concentrated force upon the price of that second group. Now the plant of engineering industry in general is of so elastic application to various kinds of machinery, that an increased demand for any one kind seldom raises its price appreciably for more than a short time: and a sustained increase in demand generally tends to lower its cost, by increasing the scope for standardization and the use of semiautomatic appliances in its manufacture. But a great increase in the supply of any kind of specialized skill is not so quickly to be obtained: partly because the operatives have little security as to the permanence of the demand caused by the new process, and are not well placed for bearing the special costs of training for it; while, if the new skill is obtained at the cost of the employer, the property in it will be vested not in him but in the operative¹⁵⁵.

The alert employer bases himself on experience as far as may be, but he boldly estimates results in advance; and if fairly fortunate, he progresses quickly. If he has intuitive genius in forecasting the results of intricate substitution of large scope, he is likely to acquire vast wealth: and yet, should the path which he pioneers be generally traversed, his reward will be much less than it would have been worth while for the world, or perhaps even of his own country alone, to pay him rather than forego his services. The advantages of economic freedom are indeed never more strikingly manifest than when a business man endowed with genius is trying experiments, at his own risk, to see whether some new method, or combination of old methods, will be more efficient than the old. He estimates with a strength and vigour of daring, such as is not common among officials of large joint-stock companies, and is almost impossible in a bureaucracy how much net addition to the value of his total product – will be caused by a certain extra use of any agent, or group of agents after deducting for any extra expenses that may be indirectly caused by the change, and adding for any incidental savings^{156 157}.

¹⁵⁵ [Marshall's footnote:] "This point is further considered in the next section".

¹⁵⁶ [Marshall's footnote:] "Reference may be made to the previous discussion (II, iv, ...) of the limitations which are generally imposed on the enterprise of the officials of a joint-stock company; and of the exceptional cases in which, the stock

The changes, which he desires, may be such as could only be made on a large scale: as for instance the substitution of “power” (whether generated by water or heat, whether acting directly or after transmutation) steam-power for hand-power in a certain factory; and in that case there would be a certain element of uncertainty and risk in the change. Such breaches of continuity are however inevitable both in production and consumption if we regard the action of single individuals. But while there will always be trades in which small businesses are most economically conducted without steam or other power, and larger businesses which inevitably use it; there will always be a continuous stream of intermediate businesses to the margin at which it is just becoming profitable to make use of it. And even in large establishments in which steam is already in use, there will always be some things done by hand which are done by steam-power elsewhere; and so on.

Thus the adaption of means to ends (estimated by their money measures) is more nearly perfect in regard to the whole of an industry than it is in regard to an individual business, especially to a relatively small business which needs expensive plant. And the adjustment of remuneration to personal efficiency tends to be more and more a broad adjustment extending over the chief national industries; because mechanical methods, which are more or less universal in character are spreading their dominion in every direction; and the importance of mere manual skill is almost everywhere yielding to that of the qualities that make for general efficiency, aided by fingers of steel that are almost unerring and omnipotent. Alert employers in industries that are apparently wide apart are simultaneously considering enlargements of old processes or introductions of new processes that will draw directly or indirectly on the kindred supplies of labour.¹⁵⁸

Thus *enterprise and competition* act steadily and directly in the direction of equalizing the remuneration which can be obtained by the same energy and steadfastness in each horizontal stratum: *and* it acts strongly, though indirectly, in establishing even relations between the remunerations to be got in different strata. If by accidental scarcity, or an exceptional tactical

of the company is chiefly held by a few powerful business men, who can form independent judgments on any important risks which it is prepared to take; and acting in concert, will sometimes allow almost as free a hand to the execution of the company as would be possible in a private company.”

¹⁵⁷At the top of the page (CG28) where this paragraph appears is written in normal pencil “Probably δ ”.

¹⁵⁸ This paragraph is like one in *Money Credit and Commerce* (MCC p. 240) with several changes. At the top of the page “Probably δ ” is written in normal pencil.

skill, the members of any one stratum were generally receiving remunerations disproportionately high relatively to their faculties, those large changes in process, for which modern invention is ever giving occasion, would be so *shaped* as to give an even increasing scope to the work of other strata, to the *relative neglect* of that which was disproportionately high priced.¹⁵⁹

The progress of invention, the growing predominance which new mechanical methods give to general efficiency as distinguished from specialized skill, and the spread of education and a wide knowledge of the world among the masses of the people, all tend in the same direction: they all increase the effectiveness of competition for the field of employment between workers of various social grades. As will be seen presently, this argument does not indeed apply without great exception to the higher industrial grades, and especially not to the profits of expert speculation: but it covers a very large part of the field of industrial life¹⁶⁰.

Thus the various strata of the employed class are continually competing with one another for employment over a great part, though not over the whole of the field of industry. They do not compete for the same tasks as a rule: but they do habitually compete for employment in making the same product by different processes, or in making products which subserve practically the same purposes. And this competition is in addition to the incessant rise of members of the lower strata to a position of effective direct competition for employment in higher grade work; and to the less frequent falling of numbers of a higher grade to the necessity of seeking employment in the work of a lower grade.

On the whole it may be concluded that though the money values, which market competition assigns to different services differ in important respects from their true social values; yet the work which it does within

¹⁵⁹ This paragraph is similar to one in *Money Credit and Commerce* (MCC pp. 240-1), with some changes.

¹⁶⁰ [Marshall's footnote:] "It seems necessary to insist on this; because much confusion has been caused by Cairnes' description of Mill's four grades as "non-competing-groups", each of which produced certain classes of goods; and by this suggestion that the supply of each of these classes was limited subject only to very slow changes, by the number of the workers in the stratum which produced it: in so much that the relative value of these goods was governed by reciprocal demand rather than by cost. It has even been thought that this peculiarity of one element in the problem of domestic values obviates the necessity for a special theory of international values, compare above III, ix". (On Marshall's use of reciprocal demand, Caldari and Mistri 2006; Whitaker 1975). In the margin of this text is written "omit"; the text is deleted with a long line in pencil.

these limitations is very thorough.¹⁶¹ Of course it fails to correct errors of judgment of the individual as to the expenditure of his income: but such errors can be remedied only by a change in human nature, or by a despotic exercise of benevolent authority such as the Jesuits seem to have had in Peru; but which even if obtainable would not be congenial to modern civilization: it awards high earnings to astute professional gamblers, promoters of bogus enterprises, and writers of demoralizing books and plays; though from a social point of view their operations are not serviceable, but detrimental. Its most important failure from the social point of view lies in its frequent allotment of a higher remuneration for a small service rendered to a rich man than for the relief of an urgent need on the part of a poor man: but that may in great measure be remedied by strong social endeavour, continued steadfastly through many generations. And a rather spe[e]dier remedy [...] ¹

[undated] ¹⁶²

¹⁶¹ This paragraph is similar to one in *Money Credit and Commerce* (MCC p. 241), with some changes.

¹⁶² Main text typewritten on white folios, numbered GC2-GC30 (pages CG20 and CG24 are missing). There are several corrections and additions made both in black pen and in normal pencil, which we show in italics in reproduction of the text.

CHAPTER IV

SECTIONAL INTERESTS IN ECONOMIC PROGRESS

1. Stratification and sectional interests

Stratification of the people into “upper” and “lower” classes *or social ranks* has been recognized in nearly every settled stage of civilization. *Members of the upper class* have sometimes owed their eminence to supposed sanctity, or learning, or military prowess, or official rank; sometimes with and sometimes without a special claim to noble descent. But the upper class has commonly been divided more or less definitely into several strata; and so has the lower class: while sometimes there has also been a clearly recognized “middle” class, which has itself been commonly regarded as consisting of several strata. This middle class has generally been brought into existence by the increasing wealth and political strength of traders and others, who had originally been ranked among the lower class. *As time went on*, land-owning, the tenure of high office, and other occupations which were traditionally appropriate to the upper class, ceased to supply sufficient revenues to enable the “upper” class to maintain its prestige in the face of a growing scepticism as to their inherent superiority; *and then* mere wealth began to assume a place, by the side of inherited and official prestige, as a claim to membership of the upper class. These two sources of distinction *can* not be logically reduced to any common measure; and consequently the term “upper class” *has* ceased to have any precise meaning. But none the less it is commonly used *subject of course to the* understanding that everyone will please himself as to the relative importance to be attached to high birth, high office, high ability, high culture, high character and great wealth, in deciding on claims to belong to the higher strata of *the population*[.]^{li}
[undated]¹⁶³

¹⁶³ Text written on a large white folio, numbered GB3. The text is mainly typewritten, with some additions by hand in black ink, shown here in italics.

Etiquette and other Sectional rules are generally more elastic than they appear

The sectional interests just described have roots deep down in human nature similar to those from which Oriental castes have sprung. But it is now known that the caste system is, with but few exceptions, much more plastic than it seems at first sight; and then it is believed to be those simple people who are inclined to believe that every custom, which has not greatly changed in two or three short generations, is of immemorial antiquity. And even in the medical and other professions, the entry to which in the western world is most definitively regulated, rigid etiquette applies mainly to procedure: such rules as exist in regard to charges are evaded¹⁶⁴ lii

[undated]¹⁶⁵

Sectional interests in industry and trade are of several kinds. The most important from a social point of view are those which are based on degrees of physical and mental faculty: but those which are most prominent in the presence of changes affecting a particular branch of industry or trade are based on changes in the demand for particular classes of goods, or in the conditions of their supply[.] liii

[undated]¹⁶⁶

Sectional interests[:]

One class of these is that of beneficent employers.

One class of these is that of hard¹⁶⁷ employers.

¹⁶⁴ [Marshall's footnote:] "At a small railway station on the prairie where cowboys were consuming a good deal of an inexpensive cooling drink for which the charge to strangers was a quarter dollar, I was told that 'it would not do' for the keeper of the restaurant to vary his charges; but that a cowboy after paying his quarter dollar was expected to take six or seven additional drinks without paying again. This is probably representative of[...]".

¹⁶⁵ Main text written on a white folio, not numbered; the title, is written in red ink on a blue folio.

¹⁶⁶ Text written in black pen on a blue folio (of the kind usually used for paragraph titles), not numbered. At the beginning of the text number "2" is written (left aside in our transcription). Added in red pen above the text is: "To be developed and rewritten on white paper. To be preceded by a blue (new) §2 heading".

The beneficent pay high wages, and what is better give good surroundings. Thus they attract good labour; and often, though not always, they get it cheap (Meakin,¹⁶⁸ acc[ording] to a review in Ec[onomic] Rev[iew] Oct[ober] 05, says the US T[rade] U[nions] were hostile to the Cash Register Co.). So they gain on the whole: but the increased supply of energetic workers whom they bring forward benefits the country.

Harsh employers do not always get low waged labour dear: for they drive more efficiently than others. But in general the case is the last inverted.^{liv} [dated 28.10.05]¹⁶⁹

Occupations, which require an equally high degree of ability may be said to belong to the same horizontal stratum: while those which contribute to the production of the same product, may be said to constitute a vertical column, consisting perhaps of workers possessed of various orders of ability.¹⁷⁰

Sectional interests in industry are of many kinds: but they fall in the main into two groups. Those which require equally high faculties, natural and acquired, may be regarded as belonging to the same stratum. Those in any one stratum tend to receive equal remuneration; allowance being made for differences in constancy of the employment, and in its amenities or discomforts. As a general rule members of the same stratum associate easily with one another in private life, even though the techniques of their several occupations have but little in common.

The common interests of each of the various strata of workers engaged in any branch of the woollen industry relate in the main to variations in the demand for products of the particular kind, with which that branch is concerned. But all those, whether combbers, spinners, weavers, or finishers, who are engaged in making fine fashion goods have like special

¹⁶⁷ A little below Marshall uses the adjective “harsh” instead of hard; the former is probably the right word.

¹⁶⁸ B. Meakin, whose book *Model Factories and Villages* published in 1905 is in Marshall’s private library.

¹⁶⁹ Text written in black pen on a white folio.

¹⁷⁰ This part of the text is written on a blue folio; before the text appears number “3”, as paragraph number of, which we have not included in the transcription.

*interests in changes of fashion, which are not shared in heavy branches of the same industry*¹⁷¹.

The employers and employed of various ranks in the woollen or any other industry, or in any subdivision of that industry, are held as it were between vertical planes cutting through the successive horizontal strata; and including between them, members of nearly all the horizontal *strata* of industry, from the highest to the lowest. For instance employers and employed of all ranks of the woollen industry have a like, though not necessarily an equal, *cause to dread* a sustained Australian drought which *may ultimately* make their raw material scarce: *and* they all have like interests in tariff changes which *hinder either the sale* in the home market *of foreign goods in competition with their own, or the sale of their own goods in foreign markets.*

The breadth of the Section, which is in some measure isolated for special study, will vary with the nature of the problem in hand. For some purposes it may include all those manufactures which make massive use of machinery; and for others only the textile trades: for others only those which work on wool: while for others again it may exclude industries that work on a material which is indeed made of wool, but is known as worsted.

But there remain some *interests* which must be classed as “local” or “geographical”; because they are not associated, even in the second degree, with any particular industry or trade. Such are the interests, which the whole population of a town have in its obtaining a good water supply; or *in* being made a port of call by an important line of streamers; or in a readjustment of the areas of local taxation, which brings some relief simultaneously to all its ratepayers. In international problems generally a nation appears as a vertical section united by the geographical and other bonds of nationality; *while* including all “horizontal” strata, and nearly all branches of industry and trade. *But* occasionally a country may be *mainly* interested in a *single* group of industries, as for instance Argentina is in cattle breeding and wheat growing: *and then* nearly all her people are sensitive to the effects of any change *in the demand for her special products.*^{lv}

[undated]¹⁷²

¹⁷¹ Text deleted by Marshall at this point: “*The shipbuilding industries, need to watch trade barometers, which are closely allied, while having little connection with the barometers of the cutlery trade.*”

¹⁷² Text written on white folios, numbered 12-18 in blue pencil. The numbering of the pages was changed several times. The text is partly typewritten, partly written

While occupations may thus be grouped vertically, in divisions each of which contains all those, whether employers or employees, who are engaged in producing some one class of goods or in conducting some branch of trade: they may also be regarded as constituting a series of horizontal strata, each of which contains members of many groups of workers, all having about the same opportunities in regard to earning power and social status. Such are for instance capitalist employers, professional men, skilled artisans and unskilled labourers. This [...] ¹⁷³^{vi} [undated]¹⁷⁴

On the whole the solidarity among the hard-handed classes is less than that among the soft-handed: *though* it is increasing much faster. The reasons for this *are, of course*, partly strategic, and partly emotional or idealistic. Those in the upper grades often find themselves incommoded in a conflict with their employers by the substitution of the work of those in lower grades for their own, sometimes in performing the same tasks as they had done, and sometimes in rendering other services which tend to the same end: and this had led in some cases to the amalgamation of unions in higher and lower branches of the same or similar industries, and in other cases to a close federation between such unions: the main purpose in both cases being the attainment of a better strategic position. This movement has made rapid progress in recent years. It has occasionally been pressed too fast, if not too far. For the “general strike”, towards which it tends has fallen for the present at least into disfavour: partly because the chief force of its blow impinges on those ordinary commodities, and railway and other services, in a steady supply of which the wage-earning classes themselves are more deeply interested than any other, though not much more than the lower grades of soft-handed occupations: and partly because the soft-handed classes of all grades have shown themselves surprisingly able and ready to do a great deal of hard work in their own defence, if pushed to extremities by a general strike, as they were not long ago in Sweden. Thus the chief effect of this strategic extension of trade-union action has been the formation of broad and deep federations, such as those of the transport

by hand in black pen. Here we have put the former in plain type, the latter in italics.

¹⁷³ Sentence incomplete.

¹⁷⁴ Text written in black pen on a white folio, made up of two little pieces pasted together, very much amended. Most probably written by a very old Marshall.

industries and again of the miners. Some of them have already considerable permanent coherence throughout a whole nation, and even throughout several nations; and when combat grows intense, they can present a firm broad front sustained by deep ranks in solid array: they show signs of becoming a powerful factor in economic development. Nevertheless all those strategic movements, with a partial exception for the general strike, contain something of the virus of sectional selfishness. Here lie seeds of hostility from other groups in the wage-earning classes, as well as others; and the experience of the past suggests that such seeds are apt to develop in unexpected ways: in this direction one cannot look at all far into the future with any confidence.

Widely different is the position of that emotionalism which is leading the upper grades of manual labour in the mining and some other industries to make a resolute stand on behalf of those members of lower grades, who appear to them not as yet to have attained a reasonable "living wage". Human nature is frail: but though we may shrewdly suspect that this high motive has sometimes put into the front, without due stress being laid on a strategic motive, which may happen to be working in the same direction; yet the higher motive is certainly growing fast in force, and in the number of people whom it affects. It is partly an outcome of that generous spirit, which belongs particularly to those who have endured hardship and have attained enlightenment. The horizon of the manual labour classes was still recently narrow; and their affections went out mainly towards those with whom they were in actual contact: but now their leaders are directing their attention to the great ideal of humanity and they are rapidly growing up towards it. The early leaders of the many various movements, which are grouped together under the large and vague term Socialism, were almost without exception passionate idealists, purely unselfish; but the crude socialism of the multitude was for a long while a conglomerate of simple enthusiasm with jealousy and a revengeful sense of wrong. The acrid elements in it were developed by misconceptions of the forces by which economic progress has been affected, and especially by an underrating of the part which brain-work has played in it. Some writers of great ability have promoted and are promoting these misunderstandings by analyses which a future age will perhaps judge with a severity greater than would be appropriate now. But however that may, be the social aspirations of the best leaders of working-class thought are challenging the present order of society with an acumen, a strength, and in some cases a self-restraint, which claim to be met in the same spirit by those classes whose interests appear to be specially favoured by it.

In particular there are perhaps fewer indications now than some years ago that an alliance between a broad semi-monopolistic combination of employers and a semi-monopolistic combination of employees of corresponding breadth in the same industry, or group of industries may constitute a solid block of sufficient strength to make certain classes of goods artificially scarce and therefore artificially dear. But some developments of Protective strategy, together with other new forces are making in favour of such alliances; and they may yet exercise considerable, though probably rather evanescent anti-social influences¹⁷⁵.^{lvii}
*[undated]*¹⁷⁶

It is known that in certain branches of this trade¹⁷⁷, combinations are organized in one or more of these strata of middlemen; which are able to¹⁷⁸ add much more than an equivalent of their costs (with normal profits) to the things which pass through their hands. Exact data on this subject, though much sought for, are not forthcoming: but there seems good reason to believe that, except perhaps in some branches of the fish trade, these exclusive rings hold their position by virtue of rendering services that are not easy of performance at charges that are not very much above those that would need to be incurred by any other of the routes available under present conditions.

But the limiting effect of these last words carries very far. For English agriculture is constricted as a result of the almost incredibly bad education which English farmers agriculture received until the evil old rural régime faded away under the influence of the belief that thorough education appropriate for each several class of the people is of the very highest national concern. Farmers in several countries are now doing for themselves in co-operation much that used to be done at high charges by middlemen: even Ireland, under the leadership of a very few energetic men, has made great progress: and the younger generation of English farmers is outgrowing that mutual distrust and that love of bargaining for its own sake which are characteristic of people of all races whose outlook

¹⁷⁵ Text cut by Marshall: "This matter will be further considered later on".

¹⁷⁶ Text written on white folios, numbered GB23-GB25. The main part of the text is typewritten with some additions or changes by hand, shown in italics.

¹⁷⁷ Text cut by Marshall: "a particular stratum reasons to believe that except in cases in which one or more are efficient (combination)".

¹⁷⁸ Text cut by Marshall: "to secure abnormally high profits for themselves by adding (an equivalent...)".

on life is narrow¹⁷⁹. Partly by aid of better educated Scotchmen English agriculturists are rapidly learning to make use of cooperative and other advanced methods in marketing; and the number of the strata of middlemen through whose hands their produce passes is being reduced. Small producers are enabled by cooperation to dispense with one at least of the strata of middlemen through whose hands their goods have commonly passed: but at the same time it is becoming even more clear that a very large part of the work done by middlemen in regard to the more complex various and uncertain products requires quantities of mind that are not very abundant, and of which the cost is likely to [be] very much diminished by a mere change in the forms of business.^{lviii}
*[undated]*¹⁸⁰

Protection and Sectional interests in UK

It is notable that the division between the districts of the UK which returned T.R.¹⁸¹ and F.T.¹⁸² representatives at the last election does not run with the interests of the population in T.R. or F.T.

Probably the chief cause is that the arguments on either side appear convincing to anyone who without making a special study of the problem reads only that side. On that supposition the division between T.R. and F.T. districts would be mainly that between those districts in which conservative newspapers mainly circulated before 1903, and those in

¹⁷⁹ [Marshall's footnote:] "Attention has been already called to the fact that during those two or three generations in which English agriculture leaped in advance of all others, the creative ideas came chiefly from people who were not agriculturists. Not long ago there were many English farmers who applied considerable natural abilities to bargaining; and gloried in being able to get the better of others in it: But if all producers and dealers were ten times as expert bargainers as they are, the world would not be the least richer than it is: and since secretiveness is natural[ly] affected by a sedulous bargainer, he is unlikely to impart from others and not very likely to leave from others, information of joint concern. A man with a good business training, who had settled in a remote part of Devonshire, informed me that he had learnt from two neighbouring farmers in confidence how they sold their milk to London. He knew that the two sets of milk were exactly alike in quality and in method of treatment: but, unknown to one another, they sold to the same middleman and one obtained only two thirds of the price received by the other, which was of course not more than the milk was worth to the middleman."

¹⁸⁰ Text written in black pen on white folios, numbered 2-6 in normal pencil (page 3 missing).

¹⁸¹ Tariff Reform.

¹⁸² Free Trade.

which Liberal newspapers did. And this line seems to be mainly drawn thus.

Districts in which the working classes generally read newspapers in such large numbers that their point of view is well represented in newspapers of high excellence: and especially where the influence of well to do residents and therefore¹⁸³ the Church of England is not very great, while that of non-conformist leaders is great. The Birmingham district is an exception, the explanation of which is not clear to me. Liverpool and in a great measure west Lancashire generally are partly influenced by an anti Irish feeling. "City men", especially suburban small villain men are obviously conservative in consequence of the debt they owe to a more or less artificial status. Further in all large markets, and especially London, the net income of big newspapers is chiefly derived from expensive advertisements; and these can be given only by big men, many of whom derive their gains from trade with the well to do and even the rich almost exclusively. These causes seem to account for the predominance of conservative and therefore¹⁸⁴ T.R. newspapers and therefore¹⁸⁵ votes in London, Edinburgh and so on. But Liberals dominate in places in which the working classes have learnt to look to their own leaders rather than newspapers.

No doubt some agriculturists vote for T.R. under the impressions it would benefit them: and some cotton people against it for fear of losing Indian trade. The Navy is of course on the Conservative and Rey Armament side: and it seems to set the fashion to seamen and fishermen: who have no good leaders.^{lix}

[dated 14.4.11]¹⁸⁶

2. Trade Unions

Memorandum on disputes and associations within particular trades considered in relation to the interests of the working classes in other trades^{187 188}

¹⁸³ Written as a symbol.

¹⁸⁴ Written as a symbol.

¹⁸⁵ Written as a symbol.

¹⁸⁶ Text written in black pen on blue folios, numbered 1-3.

¹⁸⁷ The following text was partly already transcribed by P. Groenewegen (*Official Papers of Alfred Marshall*, 1996: 287-95). In his transcription, however, some important annotations are missing, but the omitted annotations themselves suggest the way Marshall was thinking of re-using this material for a coming publication.

But I would suggest for consideration whether it might not be better to keep only §A in the Introduction and to transfer the remainder to the end of the descriptive portion of the Report.

The present Part III 'Skilled and Unskilled Labour' seems to me, in its present form, not a good ending of that portion. The opening paragraphs of it are analytical, and are really wanted at an early stage: while much of the remainder is of the nature of a general conclusion and might be so called: and in that case the bulk of this memorandum might be worked in with it.

Or, if Part VII is to be retained in its present form, I think a new Part VII, General Conclusions, might be added.

§A¹⁸⁹ It will thus be seen that the evidence taken before the three Committees was directed almost exclusively to the interests of particular industries. Representatives of the employers and employed in each industry explained clearly and instructively its internal troubles and remedies proposed for them; and they suggested ways in which the public acting through the Government to promote peace within that industry or to

We highlight these annotations by means of footnotes to the text. This draft *Memorandum* was probably written during the drafting of the Final Report of the Royal Commission of Labour some time in 1893. According to Groenewegen Marshall's involvement in its drafting "cannot be in doubt" (Groenewegen 1996: 91). For Marshall's views on trade unions in the *Principles*, see p.702 et passim.; and for his views on the relative merits of trade unions, see Petridis 1973.

¹⁸⁸ Below the title is written in black pen: "(Proposed originally as part of the Introduction to the Report.

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Or, if Part VII is to be retained in its present form, I think a new Part VIII general conclusions might be added) Alfred Marshall."

Added in blue pencil: "To be used in Iv iii on influences of technique on continuity. 6.7.22" and "The parts of which are marked "keep" will generally need to be rewritten."

¹⁸⁹ This "§A" and all the following "§§" were added in the main text in normal pencil.

confer other benefits upon it. But they did not generally undertake to represent in any special sense the other side of the question, and examine the influence for good or evil which the action of that industry might exert on the well-being of other industries and of the public generally. The witnesses who appeared before the Commission as a whole did indeed consider the interests of the community in general rather than of particular industries; but they did so chiefly with regard to various movements, and they seldom touched more than incidentally the question how the organization of particular trades would be likely to affect the working classes in other trades.

This latter question comes under the inquiry into “the conditions of labour which have been raised during recent trade disputes”; which the Commission is directed to make; and it is no doubt one of very great importance and urgency. But it seemed to them best not to attempt to investigate it at length. For it was more important that their enquiry SHOULD BE THOROUGH, SO FAR AS IT WENT, THAN THAT IT SHOULD COVER A VERY WIDE AREA; and EVEN WHEN THUS LIMITED THEIR TASK REMAINED A VERY HEAVY ONE. Again, SPECIFIC EVIDENCE CAN MORE EASILY BE OBTAINED WITH REGARD TO THE INTERESTS OF PARTICULAR INDUSTRIAL GROUPS THAN AS TO THE GENERAL INTERESTS TO THE PUBLIC¹⁹⁰. For while there are many persons who have considered the former, and who can speak with intimate knowledge of the facts; evidence on the latter would necessarily contain much of a speculative nature, which would best be discussed at more leisure than is possible in an oral inquiry.

It seems desirable however to indicate clearly the way in which¹⁹¹ a study OF THE ACTION OF TRADE UNIONS AND EMPLOYERS’ ASSOCIATIONS UPON THE WORKMEN AND EMPLOYERS ENGAGED IN PARTICULAR INDUSTRIES needs to be supplemented by a study of THE EFFECT OF A HIGHLY DEVELOPED SYSTEM OF SUCH ORGANIZATIONS UPON THE INTERESTS OF THE COMMUNITY AT LARGE AND UPON THE WAGE-EARNING CLASSES GENERALLY, WHETHER UNIONISTS OR NON-UNIONISTS.¹⁹²

¹⁹⁰ The text presented here in small caps was cut out from a published article, with corrections and additions made by Marshall by hand, here printed in plain type. According to Groenewegen the printed text is (probably) an early proof of the Final Report: See Groenewegen 1996: 96.

¹⁹¹ In the margin of the text from “This latter question” up to this point (indicated as page 2 in normal pencil) there is a “∅” (meaning “delete”) written in normal pencil.

¹⁹² Added in the margin of this paragraph in red ink is: “But the general interests of the community have not been overlooked. These interests are generally promoted by Unions of moderate strength”

§B¹⁹³ It will presently be seen how membership of a trade union, and especially of one whose provident benefits make him independent, when out of work or in ill health tends to increase a man's self respect and sense of responsibility; how it enables him to bargain on more equal terms with his employer; and by preventing him from having to sell his labour on artificially disadvantageous terms makes the action of competition more healthy and more serviceable to the community as a whole than it otherwise would be. And we shall see further how the growing strength and experience of the chief trade-unions, up to certain limits, tends to diminish the number of strikes and lockouts; partly because it smoothes away many personal jealousies and other causes of conflict which are so frequent in the history of weaker and less¹⁹⁴ highly organized unions; and partly because it facilitates clear understandings between employers and employed, and the settlement of many difficult questions by Conciliation and Arbitration. So far their action may be, and generally is, almost entirely beneficial to the public as well as to their own members. For if a Trade union of but moderate strength, acting, either by itself or in concert with an Association of employers, restrict production, the public will be able to defend themselves by getting from elsewhere what they want, or something which will serve in its place; and the attempt to raise the price against the public will recoil on those who made it¹⁹⁵.

§C¹⁹⁶. This is most clearly seen in the case of trades that are closely run¹⁹⁷ by foreign competition.¹⁹⁸ In those trades the workers early learnt to welcome every improvement, even if it caused themselves some temporary inconvenience: for they perceived that since goods made by the old methods would have to be sold against those made by the new, an adherence to the old would lower their wages or throw them out of employment. Thus, however strong may be the combination within that trade, so long as English calico is sold at home at the same price as for export, Englishmen have no reason to fear that they will pay in the price of their calico much more than is necessary to give a good wage or a fair

¹⁹³ Added in normal pencil.

¹⁹⁴ In the margin of the text, from "a study of the action" up to this point (indicated as page 3 in normal pencil) "Keep" is written in normal pencil.

¹⁹⁵ Text deleted by Marshall: "and be a warning against such a narrow policy in the future".

¹⁹⁶ Added in normal pencil.

¹⁹⁷ In the margin of the text, from "highly organized union" up to this point (indicated as page 4 in normal pencil), "Keep" is written in normal pencil.

¹⁹⁸ Added in the margin of this paragraph in red ink is: "The influence of foreign competition"

profit to energetic and enterprising people making it by the best available means. In such cases whatever promotes internal peace within the trade itself is likely to bring the action of the trade as a whole more and more into harmony with national interests.

§D Nearly the same may be said of a trade in which though foreign competition is less strong, there is yet effective competition between branches of the trade in different parts of the country; and in which trade organizations are only of a local character. Any attempt to raise price against the public artificially is checked by goods coming into their market from outside. Sometimes local regulations as to apprentices etc tend to keep the supply of skilled labour below the needs of the public, but then the deficiency is not without great loss partly by the migration of labour into that place from others and partly by the migration of the industry itself from that place to another.¹⁹⁹

§E Until within the last few years there have been no signs of the growth of trade organizations so strong and with so wide a range of action as to have the power, even if they had the will, to pursue their own advantage at the expense of a great injury to the public.²⁰⁰ But the evidence submitted to the Commission has brought out very clearly a tendency on the part of trade organizations to become more firmly compact and to extend the range of their action over a great part or the whole of the country to enter into alliance with similar associations abroad, and even to combine together various trades, the services of one of which might have been substituted in case of need for those of another. By all these means they are lessening the control exerted on them by external competition. And it is therefore important to consider whether such power is at all likely to be used to the public detriment²⁰¹.

§F²⁰². The question at issue is not a class question between employers and employed, or between rich and poor: it is mainly one between the immediate interests of particular trades and those of all industries taken together. It is sometimes thought that this question has no practical bearing; because if the policy of each industry benefits itself, then the aggregate effect must be good for all. But this seems to be an error. For if each of a number of swimmers tries to hold himself up by pulling his

¹⁹⁹ Added in the margin of this paragraph in red ink is: "The influence of competition from neighbouring districts."

²⁰⁰ Added in the margin of this paragraph in red ink is: "But stronger Associations with a wider range are raising a new issue"

²⁰¹ From the text "§D Nearly the same" up to this point a long line in normal pencil was drawn over the text to delete it.

²⁰² Added in normal pencil.

neighbours down the policy as a whole will injure all, though each man's policy may tend to help himself.²⁰³

The dangers to be considered are mainly of two kinds: limitation of output, and adherence to uneconomical methods of production.²⁰⁴

§G. One form of limitation of output is the cessation of work during a strike or Lockout. Now, though an increase in the strength of trade organization much diminishes the number of such disputes, it widens the area over which they extend when they do occur, and makes²⁰⁵ them last longer. The net effect of this change is probably beneficial to those in the trade itself; but it is often injurious to the general public. For when there was a local dispute in a trade the combatants themselves were the chief sufferers; the public could generally get its supplies at a moderate rise of price from elsewhere; while some of the employment that went past the local trade in this way, was lost to it for good.²⁰⁶ But now if the dispute spreads over a wide area and cuts off many sources of supply, the public has to pay a very high price for short supplies and the aggregate loss to the public during the dispute is likely to be as great as to the combatants themselves, and when the dispute is settled the trade recoups itself for much of its loss, and may even gain more altogether than it had previously lost by very full employment at very high prices: but still the public is losing²⁰⁷. To take an example, a suspension of work on any one of the trunk lines from England to Scotland, would probably injure the combatants more than the public: but the chief loss of a suspension of work on them all simultaneously would injure the public more than the combatants, even though the railways were compelled to carry at the customary rates when they resumed. This peril was brought very near in one of those great recent trade disputes to which reference is made in the terms of appointment of the present Commission. Again, a suspension of work in all the coal mines of the country would be very injurious to the public; but yet might increase the years income of coal miners and mine owners, and perhaps also of middlemen in the coal trade.

²⁰³ In the margin of this paragraph is added in red ink: "This issue is not between classes but between trades".

²⁰⁴ In the margin of this paragraph is added in red ink: "The two chief dangers"

²⁰⁵ In the margin of this paragraph is added in red ink: "When trade associations are of moderate strength, the chief evil of disputes falls on them."

²⁰⁶ In the margin of the following lines is added in red ink: "But when they are very strong it may fall on the public".

²⁰⁷ In the margin of the text from "§F. The question at issue" up to this point (indicated as pages 7-10 in normal pencil) "Keep" is written in normal pencil.

It may be conceded that as long as the dispute lasts the pressure on the combatants is generally more intense than on any part of the public. But this is not always so. If the work of the trade is needed to supply other trades with raw material, or to form part of the same joint product or service, those other trades may be compelled to stop work altogether; and if any of them happen to be less well-to-do than that in which the hitch occurs, they may suffer more than it does.²⁰⁸ Hardship of this kind could seldom be very great, so long as trade combinations remained merely local and could be circumvented: but their modern growth in strength and extension may raise such hardships to a prominent place in industrial history²⁰⁹.

§H. The evils caused by working short time, or lessening of output in other quiet ways, attract less notice than those caused by a great conflict; but if much prolonged they may be greater in the aggregate. When a certain diminution of output is the unavoidable result of changes that are needed to relieve a particular trade from excessive or unhealthy work; there is a gain to be set against the loss. The gain may be the greater; and in any case allowances must be made for it. But putting this gain aside, a very small permanent diminution of output would more than outweigh the benefits of a total cessation of industrial disputes. For as Mr Giffen has shown the direct loss caused by them only amounts to about one per cent of the total output.^{210 211}

Even when a restriction of output in any trade is temporary, the steadiness of wage which it tends to secure for it is often granted at the expense of increased unsteadiness of wage or employment, or both in other trades. For instance when there is a falling demand for ships, an artificially steady price of coal and iron is likely to stop shipbuilding altogether; and by thus checking [the] demand for coal and iron to compel the trade societies in the coal and iron trades to have recourse to measures still more stringent and still more injurious to the public in order to sustain their price.

§J²¹². Recent events have shown the moderation of the working classes: few of them would deliberately grasp at the opportunity of getting wages

²⁰⁸ In the margin of this paragraph is added in red ink: "Even during a dispute the combatants may suffer less than those in some other trades."

²⁰⁹ From the text "To take an example" up to this point (indicated as pages 10-11 in normal pencil) a long line in normal pencil is drawn over the text to delete it.

²¹⁰ In the margin of this paragraph is added in red ink: "A lessening of output may be necessary, but inflicts great injury on other trades partly by making employment more unsteady".

²¹¹ In the margin of the whole §H "rewrite" is written in normal pencil.

²¹² Added in normal pencil.

that were “unreasonably” high, relatively to the standard of comfort prevailing in their own class; and they are probably justified in thinking that they set a good example to other classes in this respect.^{213 214} But yet there are signs that a very strong Union may drift, without any deliberate selfishness, into a course of action that may be very injurious to the public without bringing great gain to themselves. For if a high wage has brought into the trade more workers than can be employed during the full week without lowering the price of their product and thus jeopardizing that high wage; they may feel themselves justified in stinting production with the purpose of obtaining a fair wage, or at least what is sometimes called a “living wage”, in return for much less than a week’s work. As a temporary expedient this may possibly do more good to the trade than harm to the public. But such arrangements once made tend to be permanent, when they add to the comfort of those who have the uncontrolled power of imposing them. And if they became general and permanent, the prosperity of the country would decline.

§K²¹⁵. It is true that in the past combinations to raise prices have proceeded from employers rather than employé’s; but such of them as are not directly connected with the relations between employers and employed lie beyond the scope of our inquiry. All experience shows that associations of employers are seldom so firmly knit together as those of employé’s; and the latter have announced with growing frequency their intention to lend some of their own binding force to the former to enable them to regulate trade in the interests of both. Should this movement extend much further, complete harmony within individual trades may develop a deeper opposition between the interests of wider industrial groups; just as the incorporation of small States in larger is sometimes the beginning rather than the end of disastrous wars. This opposition is at present slight, but it is showing itself with increasing force.^{216 217}

It could no doubt be held in check by the transference of all means of production to a central authority; and many of those who desire this end on other grounds, regard with satisfaction the growth of trade unities which

²¹³ In the margin of this paragraph is added in red ink: “In spite of the great moderation of the working classes a very strong union may drift into injurious restrictions”.

²¹⁴ In the margin of the entire §J “doubtful” is written in normal pencil.

²¹⁵ Added in normal pencil.

²¹⁶ In the margin of this paragraph is added in red ink “Possible dangers to the public from understanding between employers and employé’s”.

²¹⁷ In the margin of the text from this point to the end “Keep” is written in normal pencil.

would at once prepare the way for a more thorough consolidation of authority and make its uses more apparent.

But those who are averse to this remedy must rely on the force of public opinion. That is an ever growing force; and acts with increasing quickness as regards any selfish action, the consequences of which obtrude themselves on general notice. It is thus very powerful against any attempt to raise suddenly the price of any commodity which is largely consumed by the great body of the people or is needed as a material in important trades. But it is almost powerless against the injurious tendency of a trade union to discourage experiments, which might be inconvenient at the time and perhaps disturb the smooth working of its regulations; but which, if successful would cheapen the production and lower the price of its products.

§L²¹⁸. For instance the constant tendency towards the curtailment of the hours of human labour, and the increased expensiveness of machinery is in many trades bringing nearer the day when there would be great economy in making one set of machinery serve for two shifts of workers; and such a change would probably do more than anything else to increase the share of the national income which goes to labour and diminish that which goes to capital. But the first introduction of the new method generally causes some trouble to the employés and much to the employers, and is often opposed by trade associations. If this opposition is strong, and an employer adhering to the old ways has little fear of being cut out by others following the new, it will need a rare force of will and public spirit to induce him to try to pioneer the new way.²¹⁹

The same may be said of the opposition to piece-work and other methods of adjusting payment to efficiency in those cases in which they would be on the whole advantageous. No doubt there are many cases in which the opposition to these methods is reasonable: on the ground that partly by putting the employés at a disadvantage in bargaining as to their wages and partly in other ways they would injure those in the trade more than they would benefit the public. But the evidence received by the Commission gives reason to think that the opposition is not entirely confined to such cases even at present. And it might become almost irresistible, if an all embracing association of employés in a trade were working in harmony with strong association of employers.

²¹⁸ Added in normal pencil.

²¹⁹ In the margin of this paragraph is added in red ink: "The possible adherence to uneconomical methods of work".

§M²²⁰. It is not likely that deliberate opposition would be made to adoption of well tested mechanical or other improvements; but it is known that when English manufacturers under the stress of competition throw out their old machinery, it is often sold to countries in which a protective tariff or some other cause enables the local trade to combine effectively if not ostensibly against the local consumer. Again those old trade unities which went by the name of Gilds, were always found wanting when the time came for changes to be made. They did not ruin the country, only because trade went round them, and left them to ruin those particular places in which they had dominion. The experience of the past then raises some fear that the trade unities extending over the whole of England might probably throw some additional obstacles in the way of those experimental variations, which, though often proving abortive, sometimes lead the way to important inventions. And it should be noted that the force of public opinion cannot well be brought to bear against such obstructions as this; for no specific evidence can be given of the loss which it inflicts. The danger may not be very near: but it concerns a great matter. For indeed a very small check to the inventions of the last hundred years would have diminished greatly the wages of labour in all countries but especially in England.²²¹

All these considerations tend to show that though the growing strength of a Trade Union up to certain limits is almost sure to benefit the community at large, no sure conclusion can yet be reached as to whether it is for the public interest that its strength should grow without limit, and that it should work in unison with an Association of Employers in the same trade.^{222 lx}

*[undated and dated]*²²³

²²⁰ Added in normal pencil.

²²¹ In the margin of this paragraph is added in red ink: "The retardation of inventions".

²²² In the margin of this paragraph is added in red ink: "General result".

²²³ Text written on large white folios, numbered in normal pencil pages 1-21. The white folios are bound to a blue folio on which there are several dates (written at different times and with different pens): 24.3.22 (in black pen, Marshall's hand), 6.7.22 (in blue pencil, Marshall's hand); 21.3.23 (in black pen, Mary's hand); 11.10.23 (in red pen, Marshall's hand). On the blue folio, written in Mary's hand, is "21.3.23. I think that the parts of this Dollop which are not crossed out in pencil would make a good Essay which could go into Group A and might follow the Essay in "A fair rate of wages". Written by Marshall in black pen: "*δ*; Possibly a few sentences might be incorporated in an Essay on somewhat similar lines. But the bulk of it is not suited for a formal publication 24.3.22" and in red pen "11.10.23; I am not likely to make a new study of T.U.s: and without it any

Trade Unions²²⁴ Their “Legitimate Action”

Amalgamated Society of Engineers²²⁵ Notes on 97 dispute publish (pp. 148-9) an “Authoritative Decision”.²²⁶ Signed by Harrison²²⁷, Ludlow²²⁸, Crompton²²⁹, Beesly²³⁰ and the Webbs (Qe drafted by the last) in which it is said that “Collective bargaining and collective agreements” “since the passing of the T[rade] U[nion] Act of 1871 constitutes ‘The legitimate action of T[rade] U[nion]s’”.

This is a quibble. Such action is not contrary to law: nor is it in itself contrary to the public interest. Collective “Stipulations upon all (NB) the circumstances and conditions of the workman’s employment” are lawful. But if one of them should be that no one should work an improved machine so as to make it turn out more in a day than an old one, it would

considerable use of this paper would be unwise.” On the reverse is written: “Economic Progress Book I”.

²²⁴ Written “T.U.s”.

²²⁵ Written “A.S.E”.

²²⁶ “Legitimate Action of Trade Unions.” — Authoritative Decision”, signed by Frederick Harrison, J.M.Ludlow, Henry Crompton, E.S.Beesly, Sidney and Beatrice Webb (pp.148-149); “Letter to “Daily Chronicle” by Mr. Sidney Webb. What is Interference” (pp.116-118); and “Public Statement issued by Mr. Knight and afterward circulated by Employers” (pp.139-140); which Marshall used and quoted from, are, in fact, in the Amalgamated Society of Engineers, *Notes on the Engineering Trade Lock-out, 1897-98, ... Appendix. Chief Documents Relating to Dispute*. London: Chas. Mitchell, (1898).

²²⁷ Frederic Harrison (1831-1923) positivist, jurist and author. He served on the Royal Commission on Trade Unions, 1867-69, and wrote its minority report, recommending a secure legal status for unions and protection of their funds.

²²⁸ John Malcolm Forbes Ludlow (1821-1911) social reformer; educated in Paris; a friend of F.D. Maurice, Charles Kingsley and Tom Hughes, he was one of founders of the Christian Socialist movement; he also founded and edited *Christian Socialist*, 1850 and helped to found the Working Men’s College, 1854.

²²⁹ Henry Crompton (1836-1904), barrister and positivist; he assisted the TUC in its campaign to place employers and workers in a position of equality before the law and to disapply criminal law from the conduct of industrial relations; his professional insight into criminal law and its administration made his counsel particularly valuable.

²³⁰ Edward Spencer Beesly (1831-1915), positivist and historian. He taught at UCL; supported the struggle of the workers in the building trades for shorter hours; attacked the economic theories used by critics of the ‘new model’ trade unions; promoted international solidarity among working-class leaders; he edited the *Positivist Review*.

be illegitimate. (I myself think it ought to be contrary to law but apparently it is not. No data is given. But on pp 116 a letter by Sidney Webb of date Oct 24 (97) to Daily Chronicle on “What is interference is reproduced” argues that employer must be free to decide what machines should be used and when. “But on what terms the new machines shall be worked, or what shall be the intensity of toil to be exacted from each man[.] is clearly as much within ‘the legitimate sphere of T[rade] Unionism’ as the settlement of the Standard Rate or the Normal Day”. Exactly: it is not contrary to the law for them to go for a Normal Day of 8 half hours with half an hour rest between each two: but it would be improper interference. So also was their actual interference as to machines and the rate charged for them. And the final terms accepted by the men (clauses 2, 4, and 6) taken together arrange that the employers have the initiative: that if non unionists agree the Union has no ground for complaint: that T.U. forbids its members to accept the terms, employers have no ground for complaint: that if T.U. members and employers can’t agree, then shall be referred to a joint district meeting, and failing that to a joint central meeting: and a dispute if necessary only at the top of that. But of course none of these provisions are enforceable at law: and a T.U. or Federation²³¹ might strike against a new machine, or against its being worked by a non unionist[.]

These are the lines on which Knight’s “Public Statement” on “Individual and Collective Bargaining” goes (see pp. 139-40)²³². Bargain collectively as to piece prices for work which can be standardized for all shops. But as to that which has individuality in itself; or which is likely to vary in difficulty to the worker on account of varieties in plant etc, go for individual bargaining, subject to appeal, if individual is not satisfied, to a joint Committee²³³. (This is implied by Knight, and stated in the Agreement between employer and employed quoted by Webb, *ib.* p. 117). Knight further says his society has striven so to fix standard wages that the

²³¹ Written “Fedⁿ”.

²³² “Public Statement issued by Mr. Knight and afterward circulated by Employers. Engineering Dispute. Individual and Collective Bargaining. View of A Union Official” (pp.139-140), in Amalgamated Society of Engineers, *Notes on the Engineering Trade Lock-out, 1897-98, ... Appendix. Chief Documents Relating to Dispute*. London: Chas. Mitchell, (1898). Robert Knight (1833-1911), trade unionist, General Secretary of the Boilermakers, and Iron and Ship Builders’ Society, 1871-99; initiated co-operation between unions, leading to the establishment of the Federation of Engineering and Shipbuilding Trades in 1890; worked closely with ‘new unionists’ to establish the General Federation of Trade Unions in 1899.

²³³ Written “Comm^{ee}”.

cost of labour may be the same in each district and “no employers may have an advantage over another in taking contracts”.

Of course - all this arrangement for elasticity, simplicity, rapidity and smoothness of fixing prices for varied work, together with mammoth forces in the back ground, does not touch the question of fairness to the public. And employees are wise in their generation in not raising the price of their labour against one of their employers, unless they can do it against all. For in most trades employers would just as soon pay high wages as low, if their rivals had to do likewise.

Passing to Amalgamation and Federation. This is consistent with their attacking employers one at a time, so long as the employers are not Federated.

Federation is more bothering to employers than to men because²³⁴ the time of the leaders of employees has so much higher a value. And Federated employers are apt to take back part of the time lost in this way, by dropping attempts to discriminate nicely between good and bad ordinary workers, taking the men in the lump.

I fancy, though I am not sure, that personal influence counts for so much in employers[?] federations that the question of voting power to be assigned to several firms is not of great urgency. But it is urgent in Federations of Unions. One Union one vote seemed necessary: but it has kept the big A.S.E. out of Federation.

A big amalgamated Union has great advantage in detailed disputes. Neither a single employer nor a Federation cares to fight it when the stake is small. But if small stakes have piled up till fight is necessary, then employers only or federated stand to gain by having no even half obligation to find employment for any of the members of that Union.

A strong Union with say 5,000 members distributed among firms with 1000,000 employees, and capable of reducing most of those firms to idleness by striking, is very awkward to fight. Say it strikes against one group of these firms with 100,000 employees and having therefore 50 of its members thrown on its funds; it stands to hurt much more than it is hurt. If on the other hand it had amalgamated with A.S.E., the employers would have been in a much stronger position.

These remarks illustrate the general rule that a widening²³⁵ of the area of conflict tells on the side of men in small issues, but on side of employers where issue is of first importance.

Sympathetic strikes and lock outs are of the nature of temporary

²³⁴ Written as a symbol.

²³⁵ Subtitle of this part “Sympathetic strikes etc”.

Federation and do not need a separate discussion as to general principle. But there are some matters of detail. Heterogeneous Unions or Associations can sympathetically strike or lock out with reference to some individual issue, when they would not be able, or at least not find it convenient, to pursue a general policy in common. Partly for this reason they are apt to be based on impulse (often generous but sometimes acrimonious) rather than on slow wise judgement. Sympathetic strikes and lock outs are on one side akin to Boycotting: and are rightly regarded with jealousy by the public. But if they are to be ruled out on the grounds that they tend to extend the area of conflict unreasonably, to be rash and impulsive, and sometimes brought about by the eloquence of a few mischief makers etc; then it will be perhaps necessary for Employers['] Associations²³⁶ to parallel the arrangements of T.U.s by which those who are on dispute for the (supposed or real common good) are subsidized by the rest. Of course this is often done, formally or informally, on occasion. But the requisite subsidiaries are harder to figure out and on a much larger scale than out of work pay etc: and the difficulty is more likely to be met by enlarging the scope of Federation of Employers['] Associations, with careful and elastic rules as to the obligations of those Associations which have only a small, and perhaps indirect, interest in the matter under dispute.^{lxi}

[dated 2.9.01]²³⁷

T[rade] Unions: The official mind.

Partly shown in hours disputes, especially in case of men strong enough not to be hurt by over time. No doubt they have a good cause for part of their action. But still it is Regimentation by people whose election depends on the votes of the mass: i.e. those below the centre of gravity^{lxii}

[dated 3.9.01]²³⁸

Trade Unions²³⁹ and the scale of industry

The Webbs exaggerate the evils of small master-dom and understate its benefit with the same extravagant bias, and limitation of knowledge as they do the evils of home work. Their notion is indicated on p. 552²⁴⁰ in

²³⁶ Written "Ass^{ons}".

²³⁷ Text written in black pen on white folios, numbered 1-10.

²³⁸ Text written in black pen on white folio.

²³⁹ Written "T.U.s".

²⁴⁰ Webb, S. and B, *Industrial Democracy*.

their objection (together with that of the professional polemical T[rade] Unionist) “to any blurring of the line between the capitalist profit maker and the manual-working wage earner”. “Trade Unionists are solidly against Home Work, Small Masters[,] and Profit Sharing[,] and in favour of the Great Industry[,] with its bureaucratic hierarchy of salaried officials” p. 558. They however dread Trusts; and don’t much like Post office and other national undertakings. But they can turn Municipal industries to their own account.^{lxiii}
*[dated 30.8.01]*²⁴¹

Entrance to a Trade in relation to Amalgamations

Apprenticeship; restriction of numbers of boys admitted or allowed to work with any given number of journey men and so on, are as the Webbs insist²⁴², no doubt losing ground. But while the form changes, the substance remains in part; through multiplication of vertical lines of division, and sharp rules as to demarcation. This force is no doubt weakened by amalgamation, such as that of Engineers. But on the other hand Amalgamation strengthens the strategic position of employees on matters of detail: and helps them not only to beat employers one by one but also to win on one small point after another. Say the time is thought good for planners to turn a mechanical improvement to account, not for more production, but for more folded-hand time. It may only add 1/10,000 to expenses: and if resisted may cause a general dispute. So friction goes on until it is worth while for the Employers to have a big fight.^{lxiv}
*[dated 26.8.01]*²⁴³

T[rade] Unions] Membership
 Increases:

- in crude trades with tendency to labour war, e.g. agriculture and dockers, and perhaps (this not quite for the same reasons) railway service;
- in standard wage trades e.g. engineers with currency and credit changes that in effect make it easier to earn standard wages;

²⁴¹ Text written in black pen on white folio. A large asterisk was added in blue pencil on the first part of the text.

²⁴² The Webbs’ *Industrial Democracy* deals with “the entrance to trade” (Part II Chapter X) under the four heads of Apprenticeship, Limitation of Boy-Labour, Progression within the Trade, and the Exclusion of Women (p.454).

²⁴³ Text written in black pen on white folio.

- in trades in which there is little or no classification, from miscellaneous causes, and with less fluctuations than in the other two groups.

W.T.L.²⁴⁴ is rather good on this.^{lxv}
*[undated]*²⁴⁵

Protection and Trade Unions²⁴⁶.

Points.

We want to make goods cheap relatively to labour. Trade Unions²⁴⁷ claim to help to do that. Whether all their regulations and methods tend in this direction in the long run need not be regarded as beyond cavil. The point is that that is their aim; and as a rule it is their immediate result so far as the particular trade is concerned.

But Protection to goods has as its immediate result a raising of the price of goods relatively to labour in general; with (it is argued) an ultimate result of raising the efficiency of labour, and therefore²⁴⁸ the price of labour relatively to goods.

Either policy may attain the same ultimate end: but their means are different: and there is no prima facie absurdity in taking on without the others. E.g. Trade Unions²⁴⁹ did their chief good in England when it was technically advanced and socially landlord ridden. While Protection was (or might have been) seen at its best in U.S. when the opposite conditions prevailed.^{lxvi}

*[dated 3.11.03]*²⁵⁰

Trade Unions²⁵¹: general efficacy of.

²⁴⁴ Walter T. Layton (1884-1966). Layton's *The Relations of Capital and Labour* (London and Glasgow: Collins, 1914), the second of his two books, was written to provide factual and theoretical background to the period of major labour unrest during 1911, 1912, 1913 and 1914, and to offer considerations on the relations between labour and capital, including the determinants of the national distribution of wealth, and of the prices to be paid to labour and capital to secure their willing service for the community in productive activity.

²⁴⁵ Text written on white folio, undated.

²⁴⁶ Written "TUs".

²⁴⁷ Written "TUs".

²⁴⁸ Written as a symbol.

²⁴⁹ Written "TUs".

²⁵⁰ Text written in black pen on white folio.

Evidence must be collected that the growth of T.U.s is an evidence of the strength of the classes which make T.U.s.

The fact that maximum number²⁵² of members, as well as of funds per head is generally after a period 1) maximum wages (this needs special study as to the figures) is in this direction: but it is not exactly what is wanted.

The growth of the Agricultural T.U. of 1874, and of the Dockers Union are more to the point.

Admissions of the fact are to be found from candid T.Unionists[.]

This goes to show that the advantage in higgling given by a T.U. is less than the Webbs et al assume: (tho' of course not so small as Cole etc assume).

Next the question how far a T.U. really does enable a reserve price to be put on labour has to be studied. Given that those T.U.s which have considerable resource funds are exclusively among classes of workers who are highly paid both at home and abroad, whether they have a Union or not. Given that such workers generally do have some sort of reserve of their own. Given that their T.U. funds are seldom more than equivalent to two weeks wages.

Given that when they do hold out for a long as a body, that is chiefly by aid of shopkeepers loans and their private resources (since outside contributions seldom come to very much per head of a large strike) [.]

It seems to follow that the real strategic strength which they obtain from combination:

does not lie much in the reserve power given them by their funds but does lie in:

- (a) (sometimes) their power of attacking employers piece meal
- (b) their power of hurting employers (and the public)
- (c) especially when aided by sympathetic strikes or the threat thereof.

lxvii

[dated 25.8.01]²⁵³

T.U.s: Their social good

They have a unique claim in this only that they are friendly societies for the honest workman out of employment.

This gives self respect: not the highest, but the highest attainable.

²⁵¹ Written "T.U.s".

²⁵² Written "no".

²⁵³ Text written in black pen on white folio, numbered pp. 1-3.

And as men are at present that perfect provision against disaster, including unemployment, which the ideally prudent man (if fairly fortunate) can make for himself tends to form a character too detached. Human existence cannot be full for the ordinary man without a specific fellowship based on details: the membership of a small local branch of a church may do it. But outside of that a T.U. seems to be the only means. And it enables them on the whole to choose the right leaders. For this social good a very high price may well be paid. And it is paid. But we may reasonably try to keep it down: i.e. to diminish their efficiency as fighting forces especially against non unionist and consumer[.]^{lxviii}
*[dated 18.XI.99]*²⁵⁴

Lectures notes on T.U.s 1901 (8th Thursday)

Said last time:

T.U.s

gave self respect in enabling workingmen to speak with employer [...] [;] also counteracted combinations of employers. For this last little need since 1850 in England. But it may arise again if employers combinations grew.

Should have added:

They are the only possible insurance offices against want of employment and as things are the working man cannot be truly independent without this.

That is their main good now.

In saying they educate working men is distinguishing mere talkers from solid workers, it should have been added that Friendly Societies do this equally[.]

To return to influence of trade union action in making introduction of improved machinery difficult even in cases in which employers

(i) would

or

(ii) would not

want to change the character of his workers.

Quote from papers as to T.U.s v²⁵⁵ machinery in note for chapter especially

²⁵⁴ Text written in black pen on white folio.

American Engineering Competition XII and Schwab in Ind[ustrial] Com[mission]²⁵⁶ XIII 460-1.

Dwell on the Schwab case as showing that if you get a small increase in % of output by old means you are likely to decrease output much more than in proportion²⁵⁷

T.U. rules

Protect sleepy employer against alert[;] therefore make employers sleepy.

Sleepy employers (who are not going into the bankruptcy court) including many Joint Stock Companies²⁵⁸[-]

[-] Tempt T.U.s to unreasonable demand

[-] Wake up

Fallacy: what is good to raise wages in one union is good in all

Fundamental position at end of Principles²⁵⁹

To return to

Piece Work: where liked and where not liked

Oldham rule²⁶⁰, concession to employers

Premium system proper with its variations including special case of increased rate for increased output: but this commercially possible only when plant very expensive^{lxix}

[dated 1901]²⁶¹

²⁵⁵ Versus.

²⁵⁶ Charles Michael Schwab (1862-1939) was an American steel magnate and then President of the United Steel Corporation. Schwab began his career as an engineer in Andrew Carnegie's steelworks and in 1897, at only 35 years of age, became its President. He went on to become the first president of the U.S. Steel Corporation.

²⁵⁷ Written as a symbol.

²⁵⁸ Written "J.S. Cos".

²⁵⁹ Written as a symbol.

²⁶⁰ Oldham was a highly representative city of the cotton industry: its company system was well known as 'Oldham Limiteds', behind whose formation lay close relations with the cooperative movement: the background to the formation of the Oldham Limiteds was the development of the cooperative society, in particular, with the Rochdale Equitable Pioneer's Society, a cooperative distributive society, as well as cooperative productive society, whose characteristics were, 1. Working people invested money and while working, they joined the management, 2. Profit was paid out to the functions of labour, management, and investment, 3. Management was run the general assembly of the members of the society.

²⁶¹ Text written in black pen on white folio. The date – as well as the title – was added in red pen.

3. Problems related to combinations, unionism and socialism

Standardization in relation to the size of the industrial unit: and to specialization.

If F.W. Taylor'[s] plan is adopted then there is a clear price for each job: and the question is: who are to take part in settling that price.

One solution is by a Federation of all the Unions whose members have a possible claim on it. This federation might be absolute; or it might be for that purpose only. That is the Engineers might have a treaty with the riveters as regards jobs of class A, and the brass workers as regards jobs of class B. To settle A affairs a meeting of the appropriate Committee composed of some delegates from each Union affected might be held, and discuss the matter with the employers association affected. If agreement not reached, that Committee would report to their own Councils who might wilt down their men.

But it would be difficult to get groups of employers' associations which would fit pat with each of these composite T.U. Committees²⁶². And in fact, those employers, whether associated or not, who were affected but slightly, would probably follow suit to those who were chiefly concerned. In this case – as so often happens – the whole strength of the employees affected would press against part of strength of employers affected.

The whole thing however could be very complex: and the Webbs who point vaguely to some such solution as this do not seem to have at all fathomed its depths.

Therefore there is a drift towards Amalgamation, or else general Federation; and that both among employees and employers. And Barnes' solution towards end of his manifesto in Engineering Mag[azine] end of 1900 (or early 1901)²⁶³ is: "the engineering unions should frankly accept specialization, and adapt themselves to the changing circumstances; they should, I think, grade their membership from the highly-trained all-round mechanic to the machine tender who, owing to simplification of processes, cannot rank as an engineer but who is entitled to a guaranteed living wage. The employers on the other hand should frankly recognize the right of the unions to bargain collectively for their members".

This is excellent: provided the last clause leaves it free to the employer to

²⁶² Written "Com^{ees}".

²⁶³ G.N. Barnes, "Uses and Abuses of organization among employers and employees. The old trade unionism vs. wisely-organized labour", *The Engineering Magazine*, Vol. XX, October 1900 to March 1901, 560-567.

put a man up from the lower to the higher task: and the employers are able to adjust the remuneration for that task approximately to its real difficulty. But here is the crux.

If the employers may put a man of 25s grade to piece work on which he makes 50s, the machinery being improved; and then go for cutting down the piece work rate to bring his wages, working at his full to say 35s: then people of the 35s grade who had thought that properly belonged to them would have a grievance. That is: what the T.U.s claim as the evils of the piece work system would be held in check only by (i) conceivable conciliation and arbitration (ii) crude fighting force. (i) would generally work when there was strong foreign competition: but not elsewhere.

To meet this T.U.s might be inclined to adopt the K.C. rule²⁶⁴. Any particular class of work might be pieced at a rate which was calculated to, and which was compelled to yield not less than the standard weekly wage of the class to which it was supposed to belong, say that was 35s. The employer might be free to put any one on to it, who agreed. But he would then become a 35s man and might not even again work in a T.U. shop for less: so he would lose by the bargain if he were of less than average 35s efficiency, and there were enough men above him to take all that class of work in ordinary times. This plan would probably not work very badly, provided the employer and employed could agree that a certain class of work belonged to say class 7. But if they could not agree, they would needs wrangle. Even this route does not reconcile “collective bargaining” with natural adjustment by substitution: but leaves it to be decided as an incident of a campaign.

And here the difficulty would crop up – which indeed is not specially appropriate to this particular discussion - that (to quote an earlier passage of the same manifest of Barnes, just after he had said “I have a lad in his 17th year earning only 4s per week”) “the probationary servitude of lads in Great Britain entitles them in after life to take such steps as may be necessary to protect the trade from microscopic subdivisions which would reduce mechanics to mere machine-tenders, doomed to a dull round of narrow and uninteresting drudgery”. In practice that would be apt to mean that a man of high qualities would claim not to be superseded by machine + a man of low quality: and to have a right to work on this machine at a rate that would yield high quality wages. (NB Look up Higgins article²⁶⁵

²⁶⁴ Most probably Marshall is referring to the “Personal Rule” of King Charles I, King of England, Scotland and Ireland who, from 1629 to 1640, ruled without consulting Parliament.

²⁶⁵ Milton P. Higgins, “Intensified production and its influence upon the worker”, *The Engineering Magazine*, Vol. XX, October 1900 to March 1901, pp. 568-576.

to which editors of Eng[ineering] Mag[azine] refer in a note on this)^{lx}
*[dated 1.9.01]*²⁶⁶

Ideal plans (i.e. from mere standardization point of view) in some detail. Especially F.W. Taylor.²⁶⁷

Difficulties too technical to be judged here: but obviously ye kind which will yield gradually to persistent work.

Quarrels as to demarcation have often a sordid motive in the back ground. But, in so far as they have a real justification, it is a definite price for each unit of work that they want; and as the Webbs argue (with unusual breadth) their (proposed) real aims would be reached if a common national (Qe also international) agreement could be reached as to the price for each elementary unit.

Thus Webbs + extremely individualistic F.W. Taylor come together. But the questions are still to be solved: (a) how is allowance to be made for the influence of familiarity in combining elementary jobs?; (b) what are the authorities which shall price each unit and each combination?; (c) what penalties for departure; (d) in particular how meet dangers from foremen and others (See Denny quoted in ID²⁶⁸ p. 295 and look up foremen in I.C.R.²⁶⁹ index)

The system of a central rule for issuing bank notes with autonomy as to details might be

– unions – pricing units – suggestive

When approximate standardization of piece work is impossible: (as well as in more cases than Webbs admit when it is possible), time work is the only recourse.

That is not standardization at all: so far as the Unions are concerned. The only approach to it is through the employers power of departing from collective bargaining, by dismissing individuals.

²⁶⁶ Text written in black pen on white folios, numbered pages 1-7.

²⁶⁷ In the margin of the name is written in red pen: "See Mags Trade, 1899 No 15". Marshall is referring here to one of the several bound volumes he collected on "magazines Trade" (see Caldari 2000 and 2003)

²⁶⁸ William Denny (1847-1887), Clyde shipbuilder, quoted in Webbs' book *Industrial Democracy*, 1897.

Denny's long letter regarding piecework is quoted in *The Industrial Democracy*, pp.293-296, and drawn from *Life of William Denny*, by A.B. Bruce (London, 1889, p.113).

²⁶⁹ Most probably the Industrial Commission Report (see Mary's catalogue).

When that can't be done, in practice; when collective bargaining runs over into the power of dismissed practically, and to Hobson's claim as regards new men, then there is no approach to standardization.

Thus ideal from social point of view (at least when F.W.Taylor's method is inapplicable)

is:

Time wage, graduated according to numerous classes, on the suppositions that:

(A) employer will be perfectly fair in putting each man into his right class;

and

(B) each man will do his level best.

This is impossible.

We have therefore²⁷⁰ not to seek for a perfect system but for that which has the fewest faults that the moderately good working of which makes the least requirements from the virtue of the average man, employer or employed.^{lxxi}

[dated 21.8.01]²⁷¹

Standardization of labour.

The Webbs are constantly sneering at the "small master" for declaring that the large employers in readily accepting a high minimum are strengthening their strategic position against him. But in a f.n. to p. 281²⁷², they state grudgingly part of justification of the small masters complaint.

In fact he can, through his personal knowledge of the men,

²⁷⁰ Written as a symbol.

²⁷¹ Text written in black pen on white folios. The text is much amended. Above the text in blue pencil is added: "Must be worked on at home **".

²⁷² *Industrial Democracy*, p.281 fn. 2: "Practical convenience and the growth of large establishments have, no doubt, much to do with the adoption of uniformity. The little working master, or small employer, could know personally every workman, and adjust without much difficulty a graduated rate of wages. But the modern employer of labor on a large scale cannot be bothered with precisely graduated special rates for each of his thousand "hands." It suits him better to adopt some common principle of payment, simple of application by his clerks and easily common principle of payment, simple of application by his clerks and easily comprehended by the workmen".

- (i) give good men full encouragement
- (ii) make use of men whom the large employers will take on only in very busy times

while on the other hand he can[']t afford to buy cattle by the score or sheep by the hundred, balancing the loss on one against the gain on the other.

Thus he is likely to get more value for his money than the large employer, partly because²⁷³ he gets the men to extend themselves more. This is his gain to set against his loss in buying and selling, and in specialization of plant and of skill. On the other hand his men get some advantages in being treated less as machines and obtaining a higher education as a rule.

There is no doubt that the small modern ship builder would suffer more than the large from a rule that oak logs (small oak and diseased being rejected) should be sold by the ton, instead of by the log.^{lxxii}

[dated 24.8.01]²⁷⁴

Standardization

A chief function of the employer is to standardize. When it is impossible to standardize, the only plan is to decide what sort of faculties are wanted for a post, offer a corresponding income, and through the post open to competitive treaty to testimonials etc: and of course often going far astray.

To throw open the post of painter to the man who would cover a hundred square yards of canvas yearly at the lowest price would be absurd. Any low grade dispensary may practically take the medical assistant who is in the Union and will work most cheaply. But for those who have to be a law for themselves, and have work to do for which an examination diploma is no adequate guarantee, the only plan is that commonly pressured. The Webbs ID²⁷⁵ [p.] 720 use these results, without other basis to magnify the social efficiency of the T.U. minimum wage^{lxxiii}

[dated 26.8.01]²⁷⁶

²⁷³ Written as a symbol.

²⁷⁴ Text written in black pen on white folio. A large asterisk in blue pencil was drawn above the text.

²⁷⁵ *Industrial Democracy*.

²⁷⁶ Text written in black pen on white folio. A large asterisk in blue pencil was drawn above the text.

Standardization of labour: men and women

A difficulty that is not met directly by Taylor (though no doubt his general remarks about elasticity would cover it) nor by the Webbs is that if you adjust the pay to the work and not the worker, you may relatively over pay those who have not in them the seeds of foremanship. This is a small matter practically on Taylor plan because²⁷⁷ it would seldom happen that a low grade man or woman would escape penalty on it.

But allied to this is another, which is very serious practically. The rule that a house is unfair if it employs women at a lower rate for 1000ens²⁷⁸ than the standard, practically drives women out of union houses. For though their work is nominally of the same quality, it is not in practice: and that for 5 reasons it is more likely to be (i) careless; (ii) interrupted by illness etc (iii) cut short (iv) useless for emergencies when long hours are needed or great weights have to be moved (v) incapable of progress to higher branches and especially foremanship. So that as the Webbs truly say, with regard to this and other trades, to insist on their being paid on the same scale, or being blacklegs is to insist on their having no employment or being blacklegs (p. 505).

They enumerate several cases in which women have been allowed to take less than the standard rate for jobs not specially fitted for men or to working inferior machinery at the standard rates; and thus in either way to get considerable lower wages, and thus cease to be less desirable to the employer.

And they go on to suggest that the principle of these devices should, in the case of printing, be openly acted on. That women should be invited to frame their own scale (p. 504): and then admitted to the Union: it being understood that they never worked at that scale in a shop that was accepted as fair by men. But this would break down the common rule, I think. I do not mean that it would result in a real loss to the compositions as a body: and especially it would not injure them in the newspaper shops. But if it can be allowed, as I think it might be, then many other deviations from the standard rule also can _____ as I think else.²⁷⁹ lxxiv
[dated 30.8.01]²⁸⁰

²⁷⁷ Written as a symbol.

²⁷⁸ Unit for compositor's piece-work wages, piece-work in type-setting or printing.

²⁷⁹ References are again made from the Webbs, *Industrial Democracy*.

²⁸⁰ Text written in black pen on white folios, numbered pages 1-3.

General Remarks on closing up

It has been impossible to avoid coming close to same subjects several times especially as regards:

Standardization and Common Rule in Piece and Time work with modern developments in Ch VI, VII, VIII, X, XI

These again are closely united with the question of the size of the Union or Engineers Association²⁸¹ and the Federations thereof also with arbitration. This may prove fatal to the present scheme. It affords a strong argument in favour of a different arrangement in which one rule, or device, or arrangement after another is discussed in all its bearings.

But that plan is, I think, unworkable. One device runs into another so much. And in particular the "area of the conflict question" which is every day more vital and complex, affects every single rule or device. And if such rule or device is worked out separately, one will be constantly harping back to that question. So the present order is not to be abandoned, if it can be helped; and certainly not till it has been well tried.

But in order to give it a chance VI standardization must be kept to general analysis and VII VIII IX to descriptions.

There will be at every step a temptation to argue and to indicate good and evil to ye respective Combination²⁸² or to the public. But that must be resisted.

It must be recollected that the centre of the main discussion i.e. that in ch VI-XI is in the last two on the Efficiency & good and evil of industrial combinations.

Nearly all the material that is properly constructive for the whole is collected (without much order) in the notes set down for those Chapters. And these notes must be read as indicating the chief Key Note of the Book, before any serious work at the Book is done at all.

The key note may itself be perhaps put thus.

Pace Cree²⁸³, there are valid economic reasons for Combns by workers in almost all trades, from their own point of view, and from the employers

²⁸¹ Written "Eng^s Assⁿ".

²⁸² Written "Combⁿ".

²⁸³ T.S. Cree, *A Criticism of the Theory of Trades' Unions*, second edition, with an appendix, Glasgow: Bell & Bain Limited, 1891. The volume is among the books in Marshall's private library.

point of view and even the general public's in many.

The function of combination is[:]

to enable all to bargain on behalf of one, and that generally means a "Common Rule" of some sort.

But it need not.

A Common rule²⁸⁴ is never an end in itself: but only a means thereto.

Often from the points of view of public, employers and even employees rightly analyzed, it is not necessary and an evil.

Therefore²⁸⁵ nearly unmixed mischief is done (by the Webbs' and others') idolatry of it.

The good of it, without the harm of it seems to be got in the Engineers agreement which closed the 97 strike better than by any other plan that has been proposed for trades that are not suitable for the piece rate plan.

Knight's manifesto²⁸⁶ (Note on the disputes p. 140) discussed below, indicates the true line.

But of course the irresistible power of his Union is a social danger, and would be even more so were it not for I.T.

The Common Rule is (when not necessary) an evil:

- (a) to employee, whose initiative it depends
- (b) to employer, whose initiative it depends
- (c) to society by tending to increase the mechanical versus the human element in industrial relations.

But for some trades it works well on the whole because²⁸⁷ it does lessen partly friction more than anything else ever discussed. Praise be to Mundella!²⁸⁸

²⁸⁴ "The chief instrument by which trade unions have obtained their power of negotiating on even terms with their employers is a "Common Rule" as regards the standard wage to be paid for an hour's work of a given class, or again for piece-work of a given class" (*Principles* 1920, p. 704).

²⁸⁵ Written as a symbol.

²⁸⁶ See footnote above 211.

²⁸⁷ Written as a symbol.

²⁸⁸ Anthony John Mundella (1825-1897), hosiery manufacturer and politician; he had Chartist sympathies, and was largely responsible for the Education Act 1870; he introduced important educational reforms, including the Compulsory Education Act 1881; he was then president of the Board of Trade 1886 and 1892-94, and created the Labour Department 1886. According to Whitaker (1996, vol. II: 215), Mundella "had been instrumental in establishing in 1860 a board of conciliation and arbitration for the hosiery industry. The Board of Arbitration and Conciliation for the Iron Trade of the North of England, modelled on the Mundella scheme, was

This plan depends much on the extension of area by federation or otherwise.

And if persisted in it very greatly lessen the social dangers of that.

Partly because the conflicts which do emerge will be sufficiently few and vital to enable public opinion to get hold of the real issues and make itself felt.

But not entirely, specially in trades which do not look beyond the national frontiers.

For in those there will be a great competition to work on the lines of Gilds.

However even then the public is likely to be well served so far as methods of production go. High wages, high profits, with but moderate exertion may put burdens on the public. But the public will lose little that is not gained by employers and employees: who are part of the public.

The idolatry of the common rule, and of strategical formation on the part of employees is never more mischievous than what it sets Unions against Co-operation in its most life giving forms.

Probably little or none of this key note should sound in Introductory chapter. It will best be gradually brought out; and then remembered fully in the concluding chapter.^{lxxv}

*[dated 3.8.01]*²⁸⁹

The main question:-

To what extent is it desirable and practicable to subordinate economic rights to economic duties?

with special reference to the narrower question:-

To what extent is it desirable and practicable that economic rights should be subordinated to economic duties in the relations

established in 1869 with David Dale as chairman". In fact, in 1860 Mundella emerged as a successful proponent of industrial arbitration. A series of local frame-work knitters' strikes led to the setting up of a board of arbitration under his chairmanship. The board served as a model for several other trades, and secured the abolition of the local truck system, the reduction of frame rents, and the consolidation of piece-rates for domestic frame-work knitters.

²⁸⁹ Text written in red pen on white folios, numbered 1-10, dated.

- (i) between individual members of a trade and the trade as a whole
- (ii) between the trade as a whole & the community

No attempt to investigate the main question: but will indicate my own position, so that my point of view may be more clear.

I regard all economic rights, in the same light as I do prisons. They result from man's moral imperfection and would be as evil encumbrances if man's sense of duty were warmed up constantly, to full heat, as arctic furs would be in a place where cold was unknown²⁹⁰.

Imperfect man will not always exert himself for the public weal, as he would for his own gain.²⁹¹

When therefore he is working for the public weal it is necessary to control him forcibly: by

- (a) public opinion: but that has not time to watch narrowly the action of more than a few people (cabinet ministers & others; & scientific inquirers)
- (b) the authority of some superior, close at hand
- (c) rigid rules: framed rather to check excessive idleness and dishonesty rather than to develop initiative.

The ordinary man cannot be trusted to make experiments except at his own risk, or else as a mere subordinate.

Therefore private property is necessary.

If it were not, it would be true that "Property is theft" and the rich man would deserve only less condemnation than the society which tolerated his existence.

In short:

economic rights are economic wrongs justifiable only in order to prevent greater wrong and we must expect a priori that any use of economic rights whatever can be proved to involve grave wrongs, if particulars on only one side are looked at.²⁹²

The use of the study of generals is to help us to see what particulars to look for: and the more difficult task of helping us to weigh the good

²⁹⁰ Above this paragraph two large asterisks were drawn in red pen.

²⁹¹ Above this paragraph a large asterisk was drawn in red pen.

²⁹² Above this paragraph a large asterisk pen was drawn in red.

against the evil when we have found out the quality of each effect.

For this two classes of workers are wanted, professional students, & business men with a care for “generals”.

Today I shall speak only of generals and listen eagerly for particulars.

But first as to terms: let us not be the slave of them.

Combination is sometimes regarded as the antithesis of competition. But is that right[?] Association to increase the efficiency of work, co-operation is the antithesis of competition.

But combination by one group to make other members of society pay a higher price for things they want, or go without them, is not the antithesis of competition: but simply its most deadly form. It may be right under certain circumstances, as indeed almost any device for extracting much from your neighbour and giving little in return may be right, under special circumstances.

But speaking generally it is the most virulent and deadly form of competition; of buying in the cheapest market and selling in the dearest.

And often of underselling in order to coerce or ruin.

To pass to our special question.

It is really the second half which dominates.

For, if any action of a trade combination is to be condemned in the interests of the nation as a whole (at present we must not go beyond the nation) the trade itself being counted in as a part of the whole.

Then any individual member cannot owe it to his trade to fall in with that action; though he may owe it to them not to pretend to sympathize with them and approve their aims, and yet by underhand means to evade their regulations and take off the cream of the market for his own gains.

Good if it does not lessen services own: or others. Price apprentices

The answer to this question seems to be generally:-

If the combination enables those in the trade to render, in the long run, equal or greater services to the public in return for equal or less payments and does not prevent others who would be willing to render similar services from doing so it is right.

Living wage

Even if it does not do this: but is necessary in order to prevent such a destruction of personal efficiency & destruction of capital within the trade, or to prevent such a collapse of capital within the trade, as would prevent the public from obtaining adequate supplies of their commodity in the future

That it is right

Even if not, but the gain to the trade would not be less than the loss to the public

It is not wrong

Even if the gain to the trade would be a little less than the loss to the public

It is not to be condemned

Association a good in itself, especially for men

Nay it may conceivably do more good than harm on the whole.

For associated efforts in any cause that is not clearly wrong tend to educate altruism, and prepare people for broader views.

Trade Unions have probably done more good in this way than any others.

But here there is a difference between employer and employee.

The latter uses different “muscles” in his trade-union meeting from those which he uses in his work. But the employer cannot think so hard & invent & organize so hard in his own work if he has many meetings to attend, to organize, to persuade and perhaps to wirepull²⁹³

But who is to be the judge.

All history shows how unfair a trade is likely to be in judging whether the remuneration it gets is adequate.

And to listen eagerly to arguments which claim to prove that unless they can get a better price out of the public, capital must collapse and workers starve.

Restrictions as part of a permanent policy are seldom defended: and they are probably never defensible because²⁹⁴ result cumulative.²⁹⁵ Partly because their evil is cumulative e.g. a restriction of coal and iron to keep up prices enable employers to get some profits and employees to get a “living wage”; i.e. a higher weekly wage for less hours work in the week

have as first effect a check to shipbuilding &c

have as second effect the need for further restrictions & so on.

The defence therefore is generally for temporary action when a market is glutted, and a further production would cause a great fall in price, the price being such as is already deterrent to capital & labour.

It may possibly be right occasionally under these conditions: but those who are faster are not good judges.

And whenever the price is such that new capital and labour is coming into the trade, then a combination to work short time is generally to be

²⁹³ Above this paragraph a large asterisk was drawn in red pen.

²⁹⁴ Written as a symbol.

²⁹⁵ Close to these two words a large asterisk was drawn in red pen.

condemned on every ground.

Speaking generally: progress cannot be uniform, (“successive over production”) but must go first with one foot and then another.

And the enormous increase in the real earnings of all labour, but especially manual labour is really due to one trade after another having produced beyond the demand, and passed through a bad time till it has stimulated a new demand to catch the supply.

Evils of rules

Lastly trade combinations, must have rules, & however liberally they be drawn[,], these rules tend

- (i) to hamper those who would strike out new and better paths for themselves
- (ii) keep people in trade as employers whose proper place is in less responsible posts.

But this opens up Socialism.

Many points omitted e.g. F[oreign] Trade competition.^{lxxvi}
[dated]²⁹⁶

National socialism of an extreme kind would not answer unless a stop could be put to the emigration of

- (i) capital
- (ii) people whose Net product was higher than the earnings awarded to them under the Socialistic regime.

And however autocratic the Proletarian dictator with a gallows on envy hill, that would require the cessation of foreign trade; which would mean starvation for the Briton.^{lxxvii}

[dated 9.3.12]²⁹⁷

²⁹⁶ Text written in black pen on white folios, numbered pages 1-21. At the top of the first page of these 22 white folios is added in blue pencil: “See red marks. 7.5.19” and in red pencil: “For the last essay 11.12.22”. There are some asterisks drawn in red pen at the margin of the text.

²⁹⁷ Text written in black pen on white folio. In the margin of the text is written “F.B.I.”, probably meaning “For Book I”.

[As a subject to be developed in some final chapter Marshall writes the following note:]

In the last chapter the main²⁹⁸ issues between economists and socialists should perhaps be faced. The weak points of socialists are shown by (1) the laggardism of those people who do not take a pleasure in work for its own sake and are not under strict surveillance e.g. miners on day work: but (2) and chiefly by the absence of creative faculty in Government offices. This is being mitigated by the increasing significance of academic mastery of technique; and by increasing energy of leaders of Government. But there seems little reason for hoping it can be much diminished without a harsh pressure on individuals of a tune for initiative, by which they will be hurt and weakened. And therefore Socialism can hardly avoid checking the growth of that command over nature which is the most important element of human wealth; and is the only important element that belongs to the world as a whole, and is not private property even as between nations.^{lxxviii}

[dated]²⁹⁹

[...] My objection to socialism, and especially that putrid form of it which contemns family life, is that it tends to diminish activities.

But socialists are right when they call attention to the fact that external economies are in a great measure A or B; sometimes both:

A	B (belonging to)
Provincial ↓	a branch of a trade
National ↓	a trade
Cosmopolitan	all trades

Knowledge^{lxxix}

[undated]³⁰⁰

²⁹⁸ Word Deleted by Marshall "ethical".

²⁹⁹ Text written in red pen on white folio, dated 8.1.12 in red pen and 29.8.12 in black pen. In the margin of the text is written in red pen "F Concluding chapter" + "Y?" in normal pencil. Added in black pen is "For K 29.8.12".

³⁰⁰ Text written in black pen on white folio.

Fabians

Most of the doctrines which they preach before a cultivated audience are true: and many thanks to them.

But these doctrines belong to the economists.

Dividing line:

Government control has grown therefore³⁰¹ it should be extended[;]

Government control is inevitable to a large extent because³⁰² it is a danger not to be incurred save for urgent cause.^{lxxx}

[undated]³⁰³

***[...] they did not become a prominent subject of systematic analysis until the Rodbertus-Marx-Lassalle movement called general attention to the notion that this stratification deprived the working classes of the “whole produce of their labour” to which they had “the right”³⁰⁴. This movement gave the main impetus both to an organized struggle of the lower industrial strata to better their position, and to an increasingly critical analysis of the foundations of the existing order, it was honeycombed with faults on its theoretical as well as on its practical side.

³⁰¹ Written as a symbol.

³⁰² Written as a symbol.

³⁰³ Text written in red pen on a blue folio

³⁰⁴ [Marshall’s footnote:] “The large anticipation by earlier English writers of the Marxian movement is set out instructively in Prof Anton Menger’s Recht auf den vollen arbeits-ertrag and Prof Foxwell’s Introduction to the English translation of it”.

The reference is to Anton Menger’s *Das Recht auf den vollen Arbeitsertrag in geschichtlicher Darstellung*, Stuttgart 1886, 2 Aufl. 1891, 3 Aufl. 1904, 4 Aufl. 1910. It was translated into English by M.E. Tanner as *The Right to the Whole Produce of Labour. The Origin and Development of the Theory of Labour’s Claim to the Whole Produce of Industry*, “With an Introduction and Bibliography” by H.S. Foxwell, London: Macmillan, 1899. In his *Essays in Biography* J.M. Keynes wrote that “his [Foxwell’s] most solid and important work is to be found in the account of the early English Socialists prefixed as an introduction of a hundred pages to the English translation of Anton Menger’s *The Right of the Whole Produce of Labour* (1899), followed by a bibliography of eighty pages” (Keynes 1936: 278-279.)

It has evoked forces, which may in the long run effect a large balance of good over evil for mankind. But it is not adequate for the needs of the great social regeneration which the twentieth century seems to promise³⁰⁵.

It is now becoming manifest that the particular discord on which Marx laid almost exclusive stress in his vehement attack on the exploitation of the Proletariat by the forces of Capitalism, is but the leading instance of long series of discords which are inherent in the existing social order; but for which no one has, and perhaps no one can, suggested any thorough remedy, which would be likely to arrest the main courses of progress, unless human nature were fundamentally changed. The urgency and the difficulty of the problem thus arising will be indicated in the present chapter and that which follows.^{lxxxi}

*[undated]*³⁰⁶

³⁰⁵ [Marshall's footnote:] "A clear account of its strength and weakness, especially on the practical side will be found in Sombart's sketch of Socialism and Social movement."

³⁰⁶ Text written on white folio, undated.

PART II

SECTION 1

GOVERNMENT AND ECONOMIC PROGRESS

GOVERNMENT AND ECONOMIC PROGRESS

*“Let everyone work with all his might; and most of all let the Government arouse itself to do that work that is vital, and which none but Government can do efficiently”
(Marshall, 1907: 336).*

The scope for Government activity

From his early works on, along with his support for free competition and freedom of markets, Marshall stressed the important, indisputable role of government in guaranteeing some fundamental goods and services of public interest. As he saw it, “the constructive work of government [...] is itself life in one of its highest forms” and taxation, local and central, is to be considered “but a means” (1897b in Keynes 1926: 358) to that end. On the other hand, Marshall took a rather sceptical and critical position on any direct, active role of Governments in economic matters.

In fact, an “intensity of State activity” is initially only conceived “for social ameliorations that are not fully within the range of private effort” (1907: 333). Accordingly, Marshall suggests that *laissez-faire* should be interpreted as “Let everyone work with all his might; and most of all let the Government arouse itself to do that work that is vital, and which none but Governments can do efficiently” (1907: 336). The example suggested is the education given to British farmers in order to avoid a “careless treatment of milk [which] is an insidious cause of disease” (1907: 337): a “purely educational” function and nothing more, because “Governmental intrusion into businesses which require ceaseless invention and fertility of resource is a danger to social progress the more to be feared because it is insidious”. Government “creates scarcely anything” but even if “its vast resources enable it to buy the most up-to-date plant” (1907: 338), its bureaucratic structure and rigidity would prevent it from keeping pace with the need for continuous innovation and change. State intervention is, therefore, only justified for control and not for management activities³⁰⁷.

³⁰⁷ There are two important exceptions for which State management is not only accepted but even recommended: (a) the postal service, for which State

Nonetheless, the experience of World War I seems to have convinced Marshall of the existence of “special reasons for direct intervention by the state” (1919: 491) in some industries, and most notably in the mechanical industries. During the war, “plant has been kept constantly at work: the Government has been able in its capacity as sole purchaser to arrange that operations shall be so multiplied in number and simplified in character that branches of production, which had previously required the judgement and manual skill of a special trained mechanic, could be handled by an unskilled adult, and sometimes even by a child”, he notes (1919: 491-2). Moreover, in wartime the Government “is able to standardize products, implements, and methods in regard to things that it needs”. The kinds of products involved (munitions, cloth) require mass production and above all low costs. This explains why the Government as sole purchaser and with absolute control over all production is likely to obtain the best results in terms of the strictly economic efficiency that is needed in very exceptional times.

In his volume on economic progress, Marshall would have devoted a great deal of room to Government and its functions, as is amply testified by the number of notes that he wrote, amended and reused from previous writings, and that are contained here in Section 2. Government is analysed mainly in the ways it intervenes in the economy and its chief functions in stimulating progress and wellbeing.

Among the most important functions which Marshall attributes to Government we find: “a) to provide for weal at home and for defence against external force” (Section 2, Chapter I, §1.2.) and especially “b) “To clear the way for [progress]: to strengthen those who may take part on it, and to provide security” (Section 2, Chapter I, §1.2.). Government – at both the central and local level, as better explained below– does in fact

management is considered necessary insofar as the scope of collection and distribution of parcels over a vast area is too large “to be perfectly managed by any force less than that of the Universal State post” (1919: 428); and (b), but only in part, the railways. In this case the problem is more complex because even though a governmental monopoly is considered the best solution in many countries, there are in fact many serious reasons for perplexity and indeed some potential danger. The case of the German railways, with their efficiency and success, must be considered more an exception, due to their particular history and traditions (1919: 447; 454), than a rule. Generally, the results of governmental management of railways are remarkably varied and may be far less successful. Recognizing that railways are a crucial service for a nation and its people and a fundamental public good, the State has the task of guaranteeing and controlling it but only from the “outside”. Any “inside” intervention of the State by means of public ownership would in fact cause inefficiency and waste.

play a crucial role in promoting progress, and a number of cases justify its intervention; for instance, when:

- “(a) [...] individuals concerned are of a lower order than the average man, and are in fact not fit for freedom: this justifies the constraint of madmen, idiots, and perhaps habitual drunkards
- (b) [...] private action is injurious to public weal; e.g. sanitary nuisances
- (c) [...] the individuals concerned are acting injuriously to members of their own family and through them of the State [...]
- (d) [...] the individuals concerned are sacrificing higher ends in order to increase their material gains in such a way as indirectly to compel others to do the same
- (e) [...] the individuals concerned are reaping too much for themselves of what is really collective property: that the State is therefore justified in demanding some concession to public interest [...]” (Section 2, Chapter I, §1.2.)

Here we find not only the idea of a State that must take care of individuals’ wellbeing and provide important public goods (such as defence), but also of a State that may intervene in people’s private lives for reasons of public benefit.

Other important Government activities involve the regulation of trusts and cartels (Section 2, Chapter I, §2.3.), patent rights (Section 2, Chapter I, §2.4.), and wages by fixing a legal uniform minimum wage (Section 2, Chapter I, §2.2.).

Marshall carefully analyses the division of functions between the central and local authorities (Section 2, Chapter I, §1.3.), underlining the complexity of these issues and the impossibility of having one certain rule. There are some functions that are entirely up to the Central Government (such as currency, banking, the army) and others that he considers possible matters for local governments (such as the management of local thoroughfares, parks, markets, cemeteries). However, for most functions he deems it more reasonable for local and central government (proportionately) to share the responsibilities.³⁰⁸

³⁰⁸ In a note written for the volume on economic progress, Marshall underlines: “If much freedom is allowed to first class local authorities, some are sure to pioneer new paths, which the whole country is not yet ready to tread. They will have more initiative, more invention, more willingness to take trouble for the public good than is always found in the officials of a large central department. But other local authorities will lag behind. The chief work of the central authority should perhaps

Government and taxation

When it comes to “growth”, the role attributed to the Government is mainly that of boosting those elements that – in some measure – increase material wealth. For instance, taxation is to be considered a means to promote efficiency: accordingly, industries with decreasing returns should be taxed heavily, whereas increasing returns industries should be subsidised³⁰⁹. However, in terms of “progress” the role attributed to Government is manifold; even taxation becomes something more multifaceted and is considered not simply in terms of efficiency but rather for its effects on what are considered the most important engines and bases of progress.

Taxation is a fundamental means for raising funds to be used to achieve the Government’s main purposes. Although it is a crucial topic in Marshall’s reflections, “he never wrote a general treatise on taxation and failed to complete the segment on tax foreshadowed for Book X of Volume 2 of *the Principles*” (Groenewegen 1990: 91). There exist, nonetheless, “interesting fragments of taxation” (Groenewegen, *ibid.*) and other writings (academic notes and reprints)³¹⁰ that enable us to reconstruct Marshall’s view on the subject³¹¹.

be, on the other hand, to help the most enlightened local authorities in comparing, criticising, and profiting by the experience of one another; and, on the other hand, to put pressure on the more backward to work up to a high level....” (Part II, Section 2, Chapter II, §4.6.). This point is further developed in another note: “The Government, especially in a free country, is not an entity outside the nation, but a considerable part of the nation; and it can discharge its duties to the nation only by so arranging and developing its work as to make government itself a great education. This involves an extension of local responsibilities wherever possible. But devolution under rigid superior control is in danger of becoming mechanical and formal. The devolution that makes for organic evolution must not be limited to responsibility for carrying out details of schemes devised by the central authority: it must extend to the thinking out and carrying out of appropriate constructive schemes in which the central ideas of the national scheme are adjusted to particular local conditions and requirements” (fragment published in Pigou 1925: 363).

³⁰⁹ For Marshall’s position on this point, see Groenewegen 1990.

³¹⁰ Two major works by Marshall on taxation are: “The Memorandum on the Classification and Incidence of Imperial and Local Taxation” (1897) and “National Taxation after the War” (1917).

³¹¹ For a comprehensive explanation of the British tax system and its evolution over time during Marshall’s life, see Groenewegen 1990.

Taxes are considered as part of those duties that each individual has when he/she is part of a social network and community. As Marshall put it in a note written in a very late manuscript³¹²:

“Everyone has duties to himself and to others. Duties to himself are connected with the development of strength of character, of mind and physique. Duties to others call for the avoidance of actions that may injure them; and the rendering on occasion of service to them [...]. But the reach of an individual in such matters is necessarily narrow; and many of his duties to his fellow creatures must be rendered through powerful agencies to the support of which he contributes his share [...]” (Section 2, Chapter II, §1.1.).

By “powerful agencies” Marshall means governmental agencies distinguished between national and local, according to their scope.

Among its main aims, the State also has the task of equitable distribution of wealth and application of the principle of equity. The “equity of the distribution of the burden of obtaining these services” (Section 2, Chapter II, §1.1.) is in fact considered a fundamental principle for taxation, along with that of equality, to be understood as “equality of sacrifice, and in proportion to ability or in proportion to the services rendered” (Section 2, Chapter II, §1.2.).

Equity and equality are not, however, important principles to follow only in collecting taxes, but also in using the money collected from taxation:

“General Equity: not in proportion to income total or net or property or both together but to these in conjunction with the consideration that those who have the power of causing public expenditure to be (a) extravagant, should have some interest in keeping it (b) moderate.... ” (Section 2, Chapter II, §1.2.)

Several manuscript notes focus on the ways in which Governments should act, including a note in which Marshall underlines that among the fundamental principles of taxation there should be the following rule:

“Take off taxes from the poorer classes as far as is practicable without encouraging wastefulness in the public expenditure, which will come ever more and more under

³¹² Although this manuscript is undated it is bound together with a note by his wife Mary in which she writes: “These pages were written during the last few months when his memory was failing”. Marshall’s handwriting evidences his old age.

their control: and use public money freely in order to increase vigour rather than to diminish suffering. Take the least attractive course [...]” (Section 2, Chapter II, §1.2.)

Taxes are to be used in an efficient and not wasteful way, where *efficient* is to be understood as “able to foster progress”. To this end, both the richer and poorer classes have, according to Marshall, the duty – in different proportions – to cooperate with the state.

Particular attention is paid to some specific taxes, including the taxes on coinage, luxuries, houses and land, motor cars, savings, income and wages, and natural resources. They are all considered for their effects in terms of equity, efficacy and consequences for wellbeing. In relation to these important aspects, Marshall distinguishes between beneficial and onerous taxes:

“A tax is “onerous” to any class of persons, if it directly or indirectly takes from them any income or property, which they would otherwise [have] possessed; and is expended in such a way as not to give them an equivalent return. On the other hand if a special tax, levied on wet land, is spent on a drainage system which added much more than it costs to the value of the land, then it is not “onerous” but beneficial to those owners.

Similarly a tax levied on the whole people and spent on education, sanitation, etc in such a way as to confer on them benefits in the health and energy and earning power which are more than equivalent to the charge levied on them is “beneficial”. In so far as it is levied mainly on the well-to-do and spent mainly in the service of the working classes, it is onerous to the well to do in the first instance: though it may be in the long run beneficial even to them, if it greatly increases the supply of efficient labour; while it makes the country stronger against invasion, and more abounding in the amenities of life [...]” (Section 2, Chapter II, §3.1.).

A tax is, therefore, considered “onerous” or “beneficial” not on the basis of its immediate effect on the people that pay it but mainly in terms of its effects in terms of progress and public wellbeing. Every tax is, therefore, to be considered “beneficial” if it is used to increase and promote the

conditions of progress (education, sanitation, health, quality of labour and so forth).³¹³

The difference between beneficial and onerous taxes is also considered in the subdivision between local and central taxation³¹⁴. In a particularly interesting manuscript dedicated to an inquiry into local and central government activities, Marshall's suggestion for funding "education" in a beneficial rather than onerous way runs thus:

"..Primary Education should be left as far as possible to local initiative subject to the conditions that (a) a high standard should be enforced and (b) where it is shown that percentage of relatively poor is high the expense of education should be born partly by a neighbouring rich area (partial equalization of London rates) or in exceptional cases by country as a whole.... But higher education should be subsidized from central funds by scholarships at general expenses given to select students from any where and tenable any where" (Section 2, Chapter I, §1.3.)

As we have seen in Part I Section 1, the key-element "education" is of paramount importance in Marshall's reasoning, and both the local and central authorities have the duty to guarantee it to people. Primary education mostly pertains to the local authorities – albeit under the supervision of the central government (with ¼ power attributed to the

³¹³ In the last chapter of *Principles* ("Progress in relation to standards of life", proposing a sovereign remedy to equip more of the children of the unskilled for higher work) Marshall notes: "Education must be made more thorough. ...It is to educate character, faculties and activities; so that the children even of those parents who are not thoughtful themselves, may have a better chance of being trained up to become thoughtful parents of the next generation. To this end public money must flow freely. And it must flow freely to provide fresh air and space for wholesome play for the children in all working class quarters. Thus the State seems to be required to contribute generously and even lavishly to that side of the wellbeing of the poorer working class which they cannot easily provide for themselves [...]" (1920: 717-18). See also f.n. and Appendix G, whose §9 refers to "fresh air rate" (see on this Caldari 2004). In a note written for the volume on progress Marshall underlines: "The chief sources of water supply should be declared national property; and they should be leased, ...to local authorities. The same is true of fresh air. The central government should see to it that towns and industrial districts do not continue to increase without ample provisions for that fresh air and wholesome play which are required to maintain the vigour of the people and their place among nations; this is, perhaps, the most important financial responsibility which has not yet been faced" (Section 2, Chapter II, §4.7.).

³¹⁴ See on this aspect *Industry and Trade* (1919): 812-3.

central government and $\frac{3}{4}$ to local government); the central government is however considered more better equipped to manage higher education (with $\frac{3}{4}$ power), but with the cooperation of the local authorities ($\frac{1}{4}$ total power)³¹⁵. Some reflections on the appropriate scope for the local or central authorities are also made in relation to various other spheres (international affairs, property questions, police service, public health, parks, water, lighting, docks, savings banks and so forth) and “beneficial” or “onerous” measures are noted for each of the several cases.

Government and protection

Marshall’s reflections on the effects of protectionism were particularly prompted by the outbreak of the Boer War and World War I, and by the debate over the Tariff Reform, which arose in the years of the Boer War from the prompting of Joseph Chamberlain, at that time Secretary of State for the Colonies, and culminated in 1903 with the creation of the Tariff Reform League³¹⁶. The debate ignited the political scene and developed in several public spheres³¹⁷.

³¹⁵ In this interesting manuscript, Marshall shows consistency with his early reflections on socialism (see on this McWilliams Tullberg 2006) while having further developed his reasoning on these topics in the course of time. This also applies to his approach to the case of the education system, on which he always held a clear position with regard to the role of the local and central authorities (see on this Cook 2006), but only in the above manuscript does he dwell on the potential and actual division of labour between the two authorities.

³¹⁶ Stress was placed on the urgency to defend the industrial and economic interests so that Britain to keep up with the growing competition of Germany and the United States.

³¹⁷ A series of sixteen articles called “The fiscal policy of the Empire”, published from June to December 1903 in *The Times* under the signature “An economist” (i.e. W.A.S. Hewins, economic advisor to J. Chamberlain) sparked off the involvement of a large body of economists, including Alfred Marshall. On one side of the debate there were reform supporters – such as Cunningham, Ashley, and Foxwell – who raised questions over Britain’s worrying economic position. On the other side of the debate there were those who promoted the traditional Free Trade policy. On 15 August 1903 the latter group published in *The Times* a manifesto denouncing the Tariff Reform programme as “detrimental to the material prosperity of this country”. It was signed by Bastable, Bowley, Gonner, Cannan, Courtney, Nicholson, Edgeworth, Phelps, Pigou, Sanger, Scott, Smart, Armitage Smith and Marshall.

Hewins was the first director of the London School of Economics and Political Science. He was asked by Chamberlain to be Secretary of the Tariff Reform

Notwithstanding his notorious dislike of entering into public debate, Marshall endorsed the reasons of the petition against such Reform and clearly promoted them in his *Memorandum on Fiscal Policy of International Trade* written in 1903 (and published in 1908; see Keynes 1926 and Groenewegen 1996)³¹⁸. In this Memorandum, Marshall pointed out what, in his view, justified maintenance of the traditional free trade policy. A new fiscal policy in international trade was especially advocated by the reform supporters because of the advance of Germany and United States – both nations applied protectionist policies – and the (consequent relative) decline of British industrial leadership.³¹⁹ According to Marshall,

League in November 1903 and he resigned his directorship in December. Marshall had declined an invitation from *The Times* to respond to Hewins' articles. But a free trade 'manifesto' signed by fourteen academic or ex-academic economists including Marshall, published in *The Times* 15 August 1903, was reproduced in the *Economic Journal*, 13-51 (Sep. 1903), 445-50. Marshall wrote to Brentano, 18 August 1903, "It was mainly drafted by Edgeworth in consultation with Bastable & Nicholson: I having declined to draft it, because when I was asked to do so I thought there were nothing sufficiently definite to kick against. Afterwards, when Chamberlain & his League committed themselves to the most glaring economic fallacies, I changed my mind, & suggested that one should be drafted in England.Edgeworth was very good, & obtained the consent of others to those changes about wh I felt strongly. Finally Cannan – who has much literary skill – helped in verbal changes, and now I think that on the whole we may be proud of it" (Whitaker 1996, III: 53). It seemed clear that "the dispute reopened earlier divisions within the economists' ranks which had been patched over since the methodological armistice of the early 1890's." As was generally recognized, the economic historians and the advocates of the historical methods were sympathetic to Chamberlain and opposed to the 'manifesto', whereas those who either signed or publicly endorsed it were, by and large, exponents or defenders of 'orthodox' abstract economic theory" (A.W.Coats 1968: 224. See H.S.Foxwell to the Editor of the Times, *The Times*, August 20, 1903).

³¹⁸ The Memorandum was commissioned by Charles Thomson Ritchie, Chancellor of the Exchequer in Balfour's government and critical of Chamberlain's programme (see the letter in Whitaker 1996, III: 31-2). Marshall wrote to Llewelyn Davies, civil servant and one-time student of Marshall, 14 July 1903, responding to the Chancellor of the Exchequer Ritchie's strong wish to have Marshall's opinions on 'fiscal problem': "I will send you a Memorandum in a few days. ...I will endeavour to develop any points on wh., the Chancellor may desire to know my opinion.....Unfortunately the rather long time wh., I have given to International Trade has not resulted in much print as yet. The problem now in the air occupy a large space in that part of my Vol.II wh., is nearly ready for press [...]" (Whitaker 1996, III: 32).

³¹⁹ There were certainly some other causes of "Britain's industrial leadership under strong challenge" in facing with "The industrial leadership of Germany: science in

however, the two questions were to be taken separately. Competitiveness was not, in fact, ensured with a protectionist policy, save for rare exceptions.

As he notes, every country has its own peculiarities and what is a good policy for one may be damaging for another. The United States with “her domestic trade ... larger than that of the whole Western world” ... (Marshall [1903] 1926: 398) does not need foreign trade; Germany “has almost exclusive access to large areas of Eastern Europe [...]” and a very “large population within her own borders” and she can easily do without trade with the other countries. In his view, the situation of Britain was very different for at least two reasons. First, “England is not in a strong position for reprisals against hostile tariffs, because there are no important exports of hers, which other countries need so urgently as to be willing to take them from her at a considerably increased cost; and because none of her rivals would permanently suffer serious injury through the partial exclusion of any products of theirs with which England can afford to dispense” (Marshall [1903] 1926: 408). Secondly, and more importantly, in order to stimulate England’s industrial productivity and innovation it was essential to keep “her markets open to the new products of other nations, and especially to those of American inventive genius and of German systematic thought and scientific training” (Marshall [1903] 1926: 409).

In the 1903 Memorandum, free trade is in fact advocated on the basis of a clear awareness of Britain’s loss of competitiveness and structural weakness. The experience of the Boer War brought to light the military and economic strength of emerging countries and, moreover, revealed the relative decline of Britain (in terms of innovations and competitive products), which was increasingly dependent on other countries.

Marshall’s profound concern about the possibility of success of Chamberlain’s tariff reform proposals – “the only eminent public man whom I have thoroughly distrusted” (as he wrote in a letter to Pierson 1900 in Whitaker 1996, II: 273) – emerges clearly from his correspondence during those years. Commenting on the “monstrous” articles published by “an economist” in *The Times* (letter dated 20 July 1903, Whitaker 1996, III: 39) and the “most glaring economic falsities” of Chamberlain and his League (letter dated 18 August 1903, Whitaker 1996,

the service of industry” and “The industrial leadership of the United States: multiform standardization” (*Industry and Trade*, Book I). See Letter to Westcott, January 20, 1901.

III: 53) he writes to Brentano: “[...] Chamberlain (who organizes the cleverest appeals to selfish ignorance *all around*) needs to be combated by rough & - to speak frankly more crude and unscientific arguments & methods than I have either the taste or the faculty for” (letter dated 29 September 1903 in Whitaker 1996, III: 59-60)³²⁰. “Freedom *is* life”, he stressed in a letter to Westcott (20 January 1901, Whitaker 1996, II: 295) and it was not by restraining it that Britain could maintain its leadership. Indeed, for him, the problem lay in the fact that “we work less long and not more vigorously than our fathers did: and, meanwhile, the average amount of thoughtful work done by Germany has nearly doubled; and a similar though less marked improvement is to be seen in other countries” (Whitaker 1996, II: 294).

In the notes left for the volume on economic progress, Marshall carefully considers the effects of protectionist measures in terms of wellbeing and welfare within the country, with special attention to consumers’ surplus. Not all protectionist measures have mercantilist aims, but they may have also educative purposes (to further an activity within the country) or emergency reasons (as in wartime) (Section 2, Chapter III, §1.1.). It is also true, he notes, that any protective measure can be potentially good or bad, much depending on the kind of industries (whether industries with increasing or decreasing returns to scale) that are protected (Section 2, Chapter III, §1.1.). However, the most important aspect, according to Marshall, concerns the distributive effects of protectionist measures, especially in terms of real wages (Section 2, Chapter III, §1.2.). And here he finds that such policies may have rather negative consequences. Accordingly, Marshall supports the principles of free trade insofar as it is the only way to promote economic progress: free competition, in his view, allows for the circulation of ideas and knowledge essential to economic growth and progress (Caldari 2004 and 2006a).

World War I reinforced the bonds between Britain and its dominions and allies in terms of both “affection” and “loyalty” (Marshall 1917: 344), and again it raised the suggestion that Chamberlain had

³²⁰ In a letter to W.A.S.Hewins dated 14 July 1903 Marshall also maintains: “I object to your position as it is being developed because [...] you seem to me to have been entangled in the meshes of a very astute body of Protectionists. Your position – in the same way though not to the same extent as those of Chamberlain himself – seem to me incapable of being maintained permanently, & worked out to their logical consequences, without resulting in Protection of the most malignant kind, to wh I understand that you, if not he, are truly opposed” (Whitaker 1996, III: 33-34).

proposed a few years before: adoption of a Preferential Tariffs system. Chamberlain's Tariff Reform contemplated both entering into a system of preferences with the dominions and the creation of an Imperial Federation, on the example of the German Zollverein. This proposal befitted the general awakening of the imperialist sentiment of that time (Semmel 1968) and went along with the social Darwinism expounded in the writings of Benjamin Kidd and Karl Pearson. According to Marshall, imperial unity was "a high ideal" but as such almost unattainable: it required self-sacrifice, especially by the well-to-do, and "responsibility to posterity" (1903-1908 in Keynes 1926: 417). If applied in accordance with those principles, Britain could "contribute to such schemes as that of an 'all-red route' around the world, which would promote general intercourse throughout Europe" (1903-1908 in Keynes 1926: 417). But, "if approached in a spirit of greed, rather than of self-sacrifice [as Marshall thought was more probable] they are likely to rouse animosity in other lands, and to postpone the day at which it may be possible to work towards a federated Anglo-Saxondom, which seems to be an even higher ideal than Imperial unity" (1903-1908 in Keynes 1926: 420). We will return to this aspect in Part III.

SECTION 2

MARSHALL'S VOLUME ON PROGRESS

BOOK II

**FUNCTIONS AND RESOURCES
OF GOVERNMENT REGARDING
ECONOMIC PROGRESS**

CHAPTER I

ECONOMIC FUNCTIONS OF GOVERNMENT

1. Introductory

1.1. Past and Present

General propositions as to functions of Government can be fully valid only for the age to which they belong: the progress of knowledge continually lowers the value of direct inferences based on past experience for the guidance of the present.³²¹

General rules are laid down by authority in a modern democratic country. This is generally a Representative Assembly: which has often been moulded on the model of the British House of Commons. The British “Upper House” consisting in the main of hereditary Peers, is entrusted with the tasks of amending the form, and in some cases the substance, of the suggestions made by the “Lower House”: if their amendments are not approved by that House and the matter is of grave importance, the final decision is generally given by the population at large through the instrumentality of a General Election of the Lower House. If that Election shows the population generally to be in favour of the course proposed by the Lower House, the Upper House must give way. The [...] ^{lxxxii}
*[undated]*³²²

In the old world the functions of Government were seen most clearly in the histories of Athens[,] Rome and other cities whose citizens could assemble in mass to hear the voices of its rulers. At the present time every

³²¹ Text deleted by Marshall at this point: “In a small isolated island, nearly everyone may be well acquainted with the contribution that each is making to the national resources. But in a large country much must be left to the discretion of authority. In a democratic country (Britain) the most prominent authority consists of a representative assembly which issues general democratic country [...]”.

³²² Text written in black pen on a large blue folio with the title “Some Economic functions of government”.

citizen of England³²³ can read in the morning account of the most important events that have happened in New dominions [...]. Thus the Government of the whole British Empire has retained considerable unity of spirit and purpose, in spite of the increasing complexity of the problems of every civilized country. The work of a modern western Government resembles in many respects that of the directorate of a joint stock company, whose shareholders are in constant touch with its directors. But, while the chief interest which the shareholders of a great company have in its affairs relates to the prospects of industrial and commercial prosperity; the citizens of a country are concerned chiefly with her honour and very prestige. In fact, the spirit of nationality is akin to that which united the members of a great private firm, who value its good name and fame even more than the income which it yields to them. Nevertheless, there is instruction in the fact that economic policy of an alert broad-minded European nation is in some respects akin to that of a modern empire. Holland's expansion across the ocean was a chief instance of this; but her resources are small and she had no defence against Napoleon's armies: Britain was defended by the ocean from a similar distress.^{lxxxiii}
*[undated]*³²⁴

1.2. Functions and Resources

The economic functions which Government may perform with some advantage are numerous and far-reaching. It is bound unconditionally to provide for weal at home and for defence against external force. The necessity of this work has led in past times to some exploitations of national resources for private benefits: But the dignity of public service leads many men to prefer it to private business in which they might reasonably hope for larger pecuniary gains: on the whole the services on land and sea and in the law offices not to be overpaid, double count in Britain. Again a country whose land frontier impinges on those of a strong military power must regard her railways as possible chief implements of war. It must make provision in time of peace against some of its possible emergencies. This provision is facilitated in many respects – not in all – by national ownership of railways (government railways' work has some of the forestays that attach to military service: but this probably does not

³²³ Text deleted: "or other western country".

³²⁴ Text written in black pen on white folios, numbered 1-4. At the top of the text is added in blue pencil: "Possibly useful in concluding chapter of the Volume".

count for much).

On the whole private unfettered enterprise seems to be the best evoker of energy. But Government can look far a head. It must do that, if Government employment (save for the preservation of order and security) can be defended[.]^{lxxxiv}
[undated]³²⁵

The chief functions of Government in relation to progress are to clear the way for it: to strengthen those who may take part in it, and to provide security.³²⁶ It may do something constructively but for that it is not well fitted. A manufacturer or trader may take risks on his own responsibility: but not when he is acting as an agent for others, Rigt³²⁷ - risk taking is a chief route of progress.

No doubt the Directors and chief officers of a Joint Stock Company³²⁸ take risks on behalf of other people: but (α) they are subject to checks from persons who (1) have a relatively strong interest in the matter and have access to facts. A Governmental official of great force may do it sometimes but in general he must take a safe course. No doubt after private enterprise has paved the way, Government can come in. Continental railways are necessarily part of national defence: [...]^{lxxxv}
[undated]³²⁹

Economic functions of Government

A full study of the economic functions of Government would fill many volumes; several of which would require special Departmental

³²⁵ Text written in black pen on a large blue folio. Although it is not dated, the handwriting seems to belong to a very old Marshall. Text very much amended. A large part of the text written at the top of the page is deleted; it runs as follows: "The problems of Government Revenue and Government economic activity are very different in character: but yet any decision in regard to one of them [...] The economic activities which Government [...] The work of Government [...] There is no simple rule [...]".

³²⁶ Text deleted at this point: "It needs Revenue but [...]".

³²⁷ Written most probably instead of "Right".

³²⁸ Written "J.S.Co".

³²⁹ Written in black pen on blue folios. At the top of the text is added in normal pencil: "Use this as heads of argument".

knowledge³³⁰. The present chapter is limited to some general considerations.

In early times private enterprise seldom had adequate resources for large ventures. The way for them needed to be pioneered by Government: and the free cities are often engaged in large undertakings at home and in its external possessions.

Joint Stock Companies took a prominent part in the transition of Commerce from its primitive to its modern conditions. Several of the chief companies of the middle ages became in fact almost automatic govern[ments] of great States.

Influences of (a) necessary length of life (b) dependence of large business on expert heads of departments, since none but a genius could even partially control all departments (c) in many industries technique is too large for any one man; and if the head must rely on advice of heads of departments the advantage of unity of control is lessened. Increased length of life of a big business causes it to depend increasingly on the alertness and devotion of a series of heads. Joint Stock Companies³³¹ can manage that better than private businesses can.^{lxxxvi}

[undated]³³²

The appropriate functions of an autocratic Government³³³ are governed³³⁴ [in] large measure by the lengths of life of those who govern: where the direct control of Government is in the hands of the people the average length of life of the electors counts also.

In a stationary state experience counts for much: and deference is paid to the counsels of a Nistor³³⁵. But in the present age the resources and the requirements of industry change rapidly and experience counts for less

³³⁰ Text deleted at this point: "The present chapter is limited to local considerations and avoids technical considerations as far as possible such as fall within the range of scope of a mere student".

³³¹ Written "J.S. Cos".

³³² Text written in black pen (with two different inks) on a large blue folio. Text very much amended and, although undated, clearly written by an old Marshall. At the top of the text is written: "Book II A. Economic functions of Government. ~~Regulative~~. Ch I Introductory".

³³³ Text deleted in this point: "in this world".

³³⁴ Word deleted in the original without any replacement.

³³⁵ Most probably Marshall is referring to Ion Nistor (1876-1962), famous Romanian historian and politician, who studied in Vienna and played a crucial role in the reunification of his country.

relatively to an alert and penetrating knowledge of changes in mechanical or other technique that are in progress, that are beginning to rise above the horizon.^{lxxxvii}

[undated]³³⁶

Laissez Faire

To enable every one to do his own business in security is the first business of Government.

In the first half of the nineteenth century Government did not do always that. Therefore³³⁷ the first work of every reformer was to make Government do it. No increased constructive activity on the part of Government could possibly make up for neglect of this duty.^{lxxxviii}

[dated 23.2.04 and 14.7.14]³³⁸

Some socialists say: nature obviously demands big business: and ultimately State management. Therefore let us help her.

This is Laissez Faire in the worst sense. We ought first to find out whether these movements are wholly good; and that requires us to know how far progress can be sustained under State management.

That is a more difficult matter than it looks; because the State has always picked the brains of private enterprise.

In this connection it will be well to bear in mind what immense gains in production have arisen from improvements; and how great a loss would have accrued to workers if they had appropriated all the shares of

³³⁶ Text written in black pen on a large white folio. Although it is undated, the handwriting belongs to a very old Marshall. Text very much amended; added at the top of the page is “o” in normal pencil.

³³⁷ Written as a symbol.

³³⁸ Text written on a white folio, mainly in black pen, with several additions in red pen and blue pencil. As may be deduced from the inks of the dates written on the page, the use of different pens correspond to different times: the oldest part of the text is written in black pen (date 23.2.04); then we have the part written in red pen (date 14.7.14) and finally the part written in blue pencil (no date). We have put in the main text only the part written in black, as the other parts are mainly technical notes:

“Introduction, 14.7.14 This not used in BKI

Not very helpful probably but may be considered in K

Iv with reversed to K”.

capitalists and employers at the expense of halving the rate of progress:
(comp interest [...])^{lxxxix}
*[dated 15.9.06]*³³⁹

Lectures introductory

Aims. Greatest Happiness³⁴⁰ of Greatest Number³⁴¹ & Evolution are consistent provided Greatest Number³⁴² is not that of present generation only but of the coming human race also.

Extent to which a thing[,] say Joint Stock Company³⁴³ or crowded workroom industry[,] flourishes, indicates its power of utilizing the environment; not the benefits which it confers. (Partial deduction through race qualities)

For this reason Laissez Faire, in the intention of letting nature have her way is a deadly sin. But that is not its true sense. Its true sense is let Government do its own work; and not listen to rival sectional interests which want to utilize it for inappropriate work, or to prevent its working on behalf of the weak &c^{xc}

*[dated 15.9.06 and 21 August 1920]*³⁴⁴

Laissez faire must yield to laissez vivre argued with reference to “The future of the Working classes” by AM by P.F. Rowland at end of Schooling’s Protectionism or Free Trade.^{xci}

*[dated 2.4.04]*³⁴⁵

Laissez Faire

Wise “favouritism” shown by Government to firms of high character (as

³³⁹ Text written in red pen on a blue folio, numbered page 2. A long vertical line is added in normal pencil to delete the text together with the following words “A secondary point to be introduced [...] if at all” partly hidden by a following phrase in black pen “To be postponed Aug[ust] 20”.

³⁴⁰ Abbreviated as “G. H.”.

³⁴¹ Abbreviated as “G. N.”.

³⁴² Abbreviated as “G. N”

³⁴³ Abbreviated as “J. S. Co”.

³⁴⁴ Text written in red pen on a blue folio, numbered page 1. It is dated 15.9.06 in red pen. Added in black pen: “This is to be in the front of last chapter. St Martin Aug 21.1920”. There are also several asterisks added in black pen above the text.

³⁴⁵ Text written in red pen on a white folio.

e.g. Krupps) is no doubt an improvement from the national-business point of view on open competition. But this does not run counter to the old doctrine that such “favouritism” is so unlikely to remain long wise and upright, that it should be adopted only in extreme cases. Perhaps plant adopted only for ironclads should be an exception. But after all general free trade which facilitates the making of battleships for South America & c., is the best of all supports to such enterprise: and Germany has free trade for her shipbuilding.^{xcii}
*[dated 1.5.09]*³⁴⁶

Public franchises should never be perpetual: but only for a fixed number of years from 10 to 100. In case of 100 year franchises the State should at end of 80 years decide whether to take franchise over at end of 100 or to prolong. If it decides to take it over then the Commissioners may at their option

- (i) insist that it be taken over, with only such delay as necessary for completing arrangements or
- (ii) agree to the representation of the ultimate owners on the Governing body: said representatives to have authority to protest against any action which sacrifices the future of the property to immediate gains, with right of appeal: and on the other hand to recommend to the ultimate owners that new capital outlay for developing the property be approved and perhaps subsidized, on terms that would allot fairly between concessionaries and ultimate owners to expense and its reward.^{xciii}

*[dated 26.1.08]*³⁴⁷

In every free exchange either side receives something which is in his estimation worth more to him than that which he gives up.

He may be wrong: as when he is cheated, or buys a medicine or a food which does him mischief. But in general he is right.

If Government consisted of beings of a higher order than ³⁴⁸the people, as

³⁴⁶ Text written in black pen on a white folio. At the top of the page is added in red pen: “functions of Government”.

³⁴⁷ Text written in black pen on a white folio. At the top of the page is written in black pen “Functions of Government”; a large asterisk in normal pencil is drawn above the text.

³⁴⁸ Text deleted: “ourselves”.

for instance the Jesuits in [...], it might be well for it to regulate the action of private individuals in all details.

But as it is, there is a general agreement that a strong case must be made out for the interference of Government in the detailed actions of private life. Such cases generally rest on one or more of the following grounds:

(a) that individuals concerned are of a lower order than the average man, and are in fact not fit for freedom: this justifies the constraint of madmen, idiots, and perhaps habitual drunkards

(b) that private action is injurious to public weal; e.g. sanitary nuisances

(c) that the individuals concerned are acting injuriously to members of their own family and through them of the State. Under this head comes the whole treatment of the Residuum of people addicted to excessive drink, though not habitual drunkards; the compulsion of parents to send their children to school; and the prohibition to mothers of very young children to work away from home, of parents to send young children to work, regulations against over crowding

(d) that the individuals concerned are sacrificing higher ends in order to increase their material gains in such a way as indirectly to compel others to do the same Such are regulations with regard to hours of work in factory and shop, except in so far as they are made under head (b) in the interest of the coming generation

(e³⁴⁹) that the individuals concerned are reaping too much for themselves of what is really collective property: that the State is therefore justified in demanding some concession to public interests, and that it can effectively do so without vexatious interference with industrial enterprise or the peace and restfulness of private life. Instances are building regulations, designed to maintain a supply of fresh air etc: and again regulations of bank note issue etc.[...] ³⁵⁰

The same changes have caused increased requirements to be made of Government to undertake constructive work in the public interest but this lies rather outside of our present aim. It is more to the point that Government gives increasing care and thought to the diversion of private

³⁴⁹“(d)” written again in error.

³⁵⁰ Page missing.

industry from such courses as the interest of individuals would have led to adopt because by adopting another course they could in the opinion of Government confer on their fellow citizens extra benefits greater than the excess of the benefit to themselves of the first course over the second. This is habitually done when a new franchise is asked for: as for instance if railway proprietors should propose to duplicate a line between two large towns, always adequately served, it might be required to change its route so as to open up a new district, and add more to total railway traffic though perhaps getting a less share of the whole for itself.^{xciiv}
*[dated]*³⁵¹

The effects of an intervention of the Government of a people in its economic affairs are capable of great benefits: and these are generally recognized, partly because general attention is directed to them by those in. The case thus made out for Governmental activities was greatly distrusted by thoughtful observers, because [...] ^{xcv}
*[undated]*³⁵²

In the present age it is reasonable to suppose that the chief aim of the Government of a Western country is to promote the well-being of the people. The course which it pursues to that end may not [be] well conceived: and it may be twisted by the special interests, either of particular politicians; or of particular classes of the population who are able to exert a strong influence on the actions of Government. In a country, such as Britain, public opinion is in great measure formed by newspapers. But a chief aim of writers in newspapers is to keep in close touch with public opinion; in so much that the newspaper press is in great measure the medium, through which public opinion criticises itself, and develops itself. ^{xcvi}

³⁵¹ Text written in black pen on white folios, numbered 1-5. Page 4 is missing.

In the archive, these folios are bound together with another on which is written in red and black pen: "10.10.03, IV₁ The Prima facie case For freedom of contract neglecting influence on conjuncture
 For F.A.3, 27.2.12 Seems very good for IV₁ 13.8.04 But it may be considered for III₁ 13.8.04".

³⁵² Text written in black pen on a white folio, not numbered. A line in blue pencil was drawn above the text to delete it.

[undated]³⁵³

If economic functions of Government were fixed absolutely, the expenses needed for their discharge might be reckoned up. The problem would then be how might the necessary resources be got at least cost direct and indirect to the public, reckoning being of course made with the fact that the total taxes paid should generally be a larger percentage of a rich man's income. But even when peace seems firmly established, the economic functions of Government are not fixed.^{xcvii}

[undated]³⁵⁴

Perhaps at the end of Book I, but more probably as Introduction to Book II, showing why it is wanted for Book "Economic functions of Government":

It may be called

General relations between the functions of Government and its resources

Functions need resources. Every resource makes evil. In time of pressure it would be reasonable to say: - So much revenue can be put at your disposal, make the best use of it you can.

Or it might be said. So much revenue is required for urgent needs: get it as best you can. This last method is frequently necessary in time of war: and the result is very bad taxation (work up the history at home). On the whole it seems best to start with a general consideration of the good and evil of each considerably sort of tax. Then to consider the need for revenue and then to sum up. Thus there must be either one Book on it or three. Two won[']t work.^{xcviii}

[undated]³⁵⁵

³⁵³ Text written in black pen on white folios. Not numbered.

³⁵⁴ Text written in black pen on a blue folio. The text is very much amended; above the text a large "1" was drawn in blue pencil. A long line was then drawn over the text in normal pencil to delete it.

³⁵⁵ Text written in black pen on a large blue folio. Although the page is undated, the handwriting clearly belongs to a very old Marshall. The text is very much amended. Two very large asterisks were drawn in red pen above the first two paragraphs. The suggested title is underlined in red pencil.

1.3. Central and local government

Thus the economic functions of Government fall into three classes.

Class A consists of functions, which specially belong to the Central Government. Class B consists of those functions which belong in part to the Central Government and in part to local Governments: class C belong to Local Governments under the general control of the Central Government.

Class A includes the regulation of currencies, and especially of such as are full legal tender (that is, have the right to completely discharge a monetary obligation, provided they are tendered in quantity corresponding to its full amount); and of course it includes the collection of all taxes and other charges, which are destined for the supply of the National Exchequer. It includes [...] ^{xcix}
[undated]³⁵⁶

*Division of functions between central and local authorities*³⁵⁷

All questions as to the relations between central and local authorities are complicated by uncertainty as to the area covered. They appear in perhaps their most interesting form in Switzerland. But the population of London is much larger than that of Switzerland; and the advantages and disadvantages of giving great powers and responsibilities are different in degree and even in kind in the cases of London, and a small county-borough such as Oxford, or a thinly peopled county such as Wilts³⁵⁸. It does not seem possible therefore to lay down principles for dividing central from local duties and the correlative budgets even with reference to the methods [of] local Government which exists in England today, still with regard to those³⁵⁹ which may possibly be in vogue before the evils of any great disturbance of our general system of taxation have had time to pass away. Changes in the scheme of taxation should therefore be gradual and tentative, and should as a rule follow at some interval after broad changes in our political and social life of which they are corollaries.³⁶⁰

But speaking generally I think that the more freedom can be given to local authorities and the greater the responsibility tha[t]³⁶¹ can be placed on

³⁵⁶ Text written in black pen on white folios. Text much amended.

³⁵⁷ This title, written by Marshall, on a small piece of blue paper.

³⁵⁸ County now better known as Wiltshire.

³⁵⁹ "With regard to those" repeated twice by Marshall.

³⁶⁰ At the beginning of this paragraph is written "7".

³⁶¹ Written "than" by Marshall.

them the better: that subventions from the central treasury for local purposes are an evil in themselves; and that they are justified only by urgent cause. Such a cause may be that the nation, as distinguished from the locality has a strong interest in some heavy local expenditure; and that the locality will not be willing to supply the necessary funds without subsidy from without. Such may for instance be the case with parts of those forms of education which are required for modern progress, but to which the older generations were not accustomed.

Another cause may be that the material suitable for local taxation cannot easily be made to yield an adequate revenue. Such cases are sometimes alleged to be common in England. I incline to think that they are rare and on a small scale; and that speaking generally it is not in the public interest to transmute local into imperial burdens.³⁶²

As regards the division of functions and resources between central and local authorities it seems difficult to say much without going beyond merely economic considerations. It is obvious that any public expenditure for purposes of purely local interest, should be controlled by local authorities, and paid for by local rates and with as little interference as possible on the part of the central authority. But there is no clear guiding line as to matters of national concern, as to which the locality is called upon to do its share. In deciding this[,] considerations of equity and economy must be weighed together with considerations of policy which will vary much from one country to another and one age to another.³⁶³

My own opinion is that where, as in the educated England of today, the population has the knowledge and the character required for giving response to a demand for the exercise of the civic virtues, local powers and responsibilities should be continually extended both in new directions and at the expense of the central. An able and highly trained body of officials at the seat of central Government is apt to be impressed by shortcomings in the judgment or knowledge, or ability or energy of local officials; to believe that this or that thing would be done better if it could be taken into their own hands; and to conclude that it ought so be taken over by them. This belief may be right: probably it generally is right, but for all that, their conclusion may be wrong. For it may take account only of the immediate aim of doing things well; and that is often a matter of but secondary importance. The true aim is the perfection not of things but of man himself: and it may be well worth while that some things should be done in not quite the best way for a time, if so be that the ordinary citizen will

³⁶² A long vertical line drawn in normal pencil over this last paragraph.

³⁶³ At the beginning of this paragraph is written "7".

be educated by taking a share in the management of public interests in his neighbourhood. Possibly the entrustment of large responsibilities to local authorities may even call forth so much suggestive variation and fertile expedient that the thing itself may ere long be better done than if entrusted.

[undated]³⁶⁴

These general relations between the functions of local authorities and the central Government have been developed gradually; and perhaps to some extent unconsciously: but they seem to be well established in public approval. The detents however are fluid. They have been much changed by facilities of travel, of transport of goods and above all by the presence in almost any household of a newspaper: telegraph, telephone[,] Centralization.^{ci}
[undated]³⁶⁵

Necessarily appertaining to Government central or local[:]³⁶⁶

Army; Navy; Police; Courts of Law;
Legal tender currency (its own or issued by a strong bank under its control);

Streets (here come regulation of traffic, by courts of law and in difficult cases by direct police control); Canals, Light houses (some); Surveys and information of all kinds which are beyond the reach of private effort: though private effort should be invoked to supplement it and if possible to supersede it; Free parks and Recreative grounds [and so forth:] *“In all these private effort has often helped much”*

Things which must be regulated more or less by Government[:]

Convertible notes issue Banks. Insurance offices, Weights, measures, and standards of many kinds (i.e. chiefly primary, though standards of excellence[,] e.g. yarn[,]) may often be best

³⁶⁴ Text written in black pen on white folios.

³⁶⁵ Text written in black pen on a large blue folio.

³⁶⁶ At the top of this page there is added in black pen (but with a different ink from that used for the main text): “Combine this with p.4”, which is the following paragraph in our transcription.

arranged by private associations with or without government authority); Markets; slaughter houses; fairs; cemeteries; action in the case of infectious diseases.

The supply of meat, fruit, and other things which the consumer cannot test for himself at all or until too late to escape serious injury[.]

Public wayleave industries: must be regulated and may perhaps best be owned by Government local or central³⁶⁷[:]

Telegraphs, Telephones, Water, Gas, Electricity supply

Tramways

Building on public streets

Railways Pipe lines

Agricultural drainage and Irrigation works

Educational and medical provisions on too large a scale for private enterprise, in which public and private foundations may well be mingled under public control.

Universities[,] Museums[,] Art Galleries[,] Hospitals (with paying cards)

Certificates of skill where the purchase of services is not a good judge (Law, Medicine, Piloting? [and so forth].)

Things which most people think should be done by Government in its capacity of guardian for the less well to do, and the less educated classes: though in a highly developed democratic State they might probably best be left to private initiative. For, though as things are regulation is needed, yet in all these things high minded and well trained men would need no control. It would be best to leave wrongdoing, when it occurred, to courts of law and have few inspectors:

Factory Acts. Mine, shipping etc regulations.

Schools. Educative music.

Building (independently of use of streets)^{cii}

[dated 18.5.08 and undated]³⁶⁸

³⁶⁷ Added at the top of this page "Way leaves".

³⁶⁸ Text written in black pen on white folios, numbered. Very much amended. The numbering clearly proves that Marshall went back to this text several times and in different periods. The first page previously numbered "1" in black pen, then deleted and numbered "3" in blue pencil. The second page was previously numbered "3" in black pen and then "4" with another pen (black but with a different ink); the third page was previously numbered "2" in black pen, then

Central and Local government

Where:

1. wide survey of international experiences needs to be collected at great expense

there is a special fitness in the action of:

Central Government

2. General and especially uniform facts relating to the whole country are needed

there is a special fitness in the action of:

Central Government

3. Specific experience on untried ways in affairs not requiring national uniformity

there is a special fitness in the action of:

Local Government

BUT

4. in such cases local comparisons should be started, and backward localities urged to work up to advanced standards; while those which show vigour should not be interfered with

there is a special fitness in the action of:

Central Government

Onerous local rates[:]

5. Hence primary Education should be left as far as possible to local initiative subject to the conditions that (a) a high standard should be

deleted and "5" added in blue pencil; the fourth page was previously numbered "3" in black pen, then deleted and "6" added in blue pencil; the fifth page was previously numbered "5" in black pen, then deleted and "7" added in blue pencil; at the beginning of the text there is a blue folio written in red and black and subsequently numbered in blue pencil "2". On this blue folio is written:

"Division between Public and Private fields of work

Combine public and private energies

Schmoller praises Paris omnibuses; private control, but with public representatives on the board. But this may have changed.

Own poor law scheme

Brings this up to date at home".

enforced and (b) where it is shown that percentage of relatively poor is high the expense of education should be borne partly by a neighbouring rich area (partial equalization of London rates) or in exceptional cases by country as a whole [.]

there is a special fitness in the action of

Central Government $\frac{1}{4}$

Local Government $\frac{3}{4}$

But higher education should be subsidized from central funds by scholarships at general expense given to select students from any where and tenable any where

there is a special fitness in the action of

Central Government $\frac{3}{4}$

Local Government $\frac{1}{4}$

6. Local property in prestige should be stimulated: and partly for that reason every desire on the part of a locality to do things extra well at its own expense should be encouraged: the red-tape veto of dull officials at Whitehall should be restrained: and effective appeals from it should be allowed.

there is a special fitness in the action of

Local Government

7. For all such purposes local taxes of any kind that are technically good may be levied; and no special pressure should rest on land values. But these should be taxed heavily for all improvements that permanently raise the value of local land

Onerous local rates

Poor Relief.

Vagrants should be under national control, local police services being used for these and other purposes.

there is a special fitness in the action of

Central Government

There seems no reason why police expenses should not be generally defrayed at local cost on same lines as education

The term local meaning largely provincial

there is a special fitness in the action of

Central Government $\frac{1}{4}$

Local Government $\frac{3}{4}$

Poor expenses go with police expenses and education. Pawnshops.

there is a special fitness in the action of

Central Government $\frac{1}{4}$
Local Government $\frac{3}{4}$

Public health
Savings banks

there is a special fitness in the action of

Local Government

Non onerous rates

All these to fall on ultimate landlord mainly, but partly on lessee and tenant

Streets, bridges

Continental plan for big motor routes

there is a special fitness in the action of

Central Government

Continental plan for local routes

there is a special fitness in the action of

Local Government

Sewers, Scavenging, Baths, Parks, Markets, Cemeteries

there is a special fitness in the action of

Local Government

But water works:

Water itself (central government)

Works (local government)

Docks, lighting, trains, electric power

$\frac{1}{4}$ Local

$\frac{1}{2}$ Provincial

$\frac{1}{4}$ Central

N.B. in Incidence of taxes

No general rule: all depends on size of local area and its relation to neighbouring districts. Two questions. Should the industry be public? if so, is present local authority sufficient [?]

But in a big country such as US[,] Provincial (i.e. "State") functions must become very important. France has suffered from the want of this. Our

County Councils are a step towards recognizing its importance. In USA it is becoming clear that though (1) State Legislatures must do more than had been expected of the kind which here may be discharged by both central and local; yet (2) so far as trade and transport goes central authority must be greatly strengthened[.]

On the other hand in a little State such as Holland or New Zealand much may be done by central Government which in larger populations should be done by local; because:

1. There are fewer grave questions to be considered: central authority is not so hopelessly over worked: and false steps more easily retraced.
2. People know one another better: there are fewer to be known. Further in New Zealand old world experience is of relatively little guidance for many matters; and the central Government may reasonably try experiments as to central organization[.]

The general principle as regards taxation should be that each area, parish, town, or county (province) take the expenses of all administration under its control, (on the same principle that each county in postal union keeps payments for the under stamped letter which it receives) unless it shows cause for thinking it suffers hardship.

Then it may receive a grant from the authority next above with a possible obligation to explain its accounts and possibly act on suggestions for greater economy[.]^{ciii}

[dated 6.3.07]³⁶⁹

Functions of Government

What is the broad line of divisions between those Governmental functions involving expenditure which are most appropriate for Central and Local Governments respectively. Those functions only to be considered which belong to Government by the general consent of Englishmen.

How far does your answer depend on (a) the size of the country and (b) its stage of development. Compare e.g. UK Holland US and New Zealand.

³⁶⁹ Text written in black pen on white folios. Pages numbered 1-8. This text was transcribed and published by T.Raffaelli in the *Marshall Studies Bulletin* vol. 13, 2012 (online: <https://www.disci.unifi.it/cmpro-v-p-97.html>). In that transcription, however, there are a couple of words misunderstood from the original manuscripts. Those words are highlighted here in bold.

What is the relation between the doctrine which Ricardo badly expressed by saying that Rent does not enter into cost of production; those principles of taxation which are urged in support of discriminating between land and buildings and other forms of immovable property. (NB Taxes on railways to be deferred)[.]

What are causes which make immovable property a specially appropriate subject for that part of the public revenue which should be collected and administered by local authorities?^{civ}
[dated 22.2 07]³⁷⁰

Municipal trading accounts

The difficulty of deciding whether a branch of municipal trading accounts is carried on at a profit is great because

- (i) So much of the supplementary cost is common to the whole of the municipal business; e.g. cost of municipal offices, elections, law expenses and in many cases even time of some of chief paid officers
- (ii) at starting a new branch retiring pensions etc are implicitly promised but none are entered into that special account at once, even if ever
- (iii) Part of assets of the State consists of willingness of citizens to do public work freely. If part of these services are taken off from work, which private interest would not do, to municipal manufacturing, building etc; then a charge against it ought to be made on account of the loss thence arising: but never are
- (iv) Contributions which private enterprises would have made to the rates ought to be added in but seldom are.

(In considering one municipality alone, it may be argued that if that bought say its tramcars from elsewhere, the firm that made those cars would pay no rates to it. That may be valid for the individual case, but not for policy of municipal trading as a whole. And any how these works occasion extra expenditure on lighting, passing, water, drainage, police & c.; and in some cases on poor relief; tho' that may be small for those of the municipal servants who are steady and earn a pension)

(v+) Successful municipal enterprises are quoted; debts on account of unsuccessful are merged in general debt for public

³⁷⁰ Text written in black pen on white folios, not numbered. Text somewhat amended.

uses: whereas in private enterprise successful firms must earn enough to pay for unsuccessful. One side of this for there are two, is that municipalities appear to borrow at a lower rate than they do, relatively to companies who may fail[.]

(vi) The general difficulty of isolating charges on account of one particular branch of a large undertaking have to be counted in: but many of them would exist in case of private undertaking of similar size.

(vii) Many of undertakings of Municipalities are of kinds which do not enter into ordinary business; so comparisons are made with contractors['] estimates. But contractors as a rule – unless they wanted to advertise themselves – charge extra for public jobs. Acworth³⁷¹ in debate on Cost of Municipal trading before Society of Arts said that a contractor, who had done bricks and mortar work for more than £ m 1 for London ratepayers, told him “when he made his estimates he always assumed that his workmen would do less work for a contractor working for municipality than for a private owner; he did not know why they should, but experience proved that it was so”.

(viii) The municipality sometimes actually has a monopoly; when not, it can often put obstacles in the way of private enterprises which will come into competition with its own work. It may not do so officially: but its people are likely to do it quietly[.]^{cv}

[dated 22.4.99]³⁷²

2. Government Administration and Control

2.1. The Scope

Government administration and Control of I&T

Either would be excellent if Government could collect abundant supplies of men of first-rate ability and energy, set them free to think out and execute the best plan for all suitable branches of industry, of commerce and also the best organization of their mutual relations. But such men have never existed in adequate numbers for the task. If they were numerous enough and sufficiently endowed with the faculties and energies required

³⁷¹ W.M. Acworth, whose many volumes on railways are in the Marshall's personal library (M.Paley Marshall's catalogue).

³⁷² Text written in black pen on white folios.

for constructive work of the first order, they would be fully qualified citizens of Utopia³⁷³. As men are, competition generally succeeds in drawing out a great part of their powers of initiative and construction: Employment in a Government office seldom does that: and – so far as can be seen at present – it cannot do that in like measure, unless under the stress of a great war (develop this). But the class of man who seeks and obtains Government employment is generally well balanced and careful: and he may do good service in regard to some of the needs of industry for its own efficiency, and in regard to some of the hurts which individual eagerness in the pursuit of wealth might inflict on the people. The progressive organized study of public and private business interests and resources may lay the foundation for a penetrating study of industrial problems so as to render important in bringing to bear Adam Smith's and Ricardo's powerful methods on problems of the coming age³⁷⁴³⁷⁵.

The present study relates only to cases, such as that of modern Britain, in which the great body of the people are sufficiently educated to be able to exert an effective control over their own Government. But even in such a country its responsibilities must be kept within limits sufficiently narrow to enable it to give adequate study to each considerable task which it undertakes. The limits thus imposed are rather narrow.

No doubt much of the authority which the people has thus delegated to its Government, is delegated again to authorities of secondary rank and its exercise in any matter is in some measure supervised by those who are specially concerned in it. For the whole of the population is now educated: and every considerable activity, or lack of activity is noted by general or local newspapers. Popular education, aided by an efficient and cheap press

³⁷³ See below Part III, Section 2, Chapter II, §2.

³⁷⁴ Added in black pen in the margin to this phrase: "new men introduced by examinations".

³⁷⁵ The following text is deleted at this point: "In a backward country Government must be responsible, in part at least, for some work which may best be left to private enterprises. The proper functions of government cannot be determined absolutely. A highly civilized population can safely [...] a strong and wise government has often ruled a large population with almost absolute authority: and [...]"

When Government of a country is in the hands of a small part of the population... The rulers of a country has often been a small group of men much more capable than the great body of the population and [...]"

In former times the effective control of a nation's destiny generally lay in the hands of a comparative small number of men, who often belonged to a more warlike race than the great ~~body of population.~~"

enables the people of a country to govern their governors. Such government was formerly possible only in a City-State; in which the population generally could hear the voice of each of its rulers, when explaining and defending his conduct. Their expressions of approval or dissent were often uttered at once. Now some time, often not more than a day, suffices to enable nearly the whole population of a country to receive the suggestions of its rulers and to express an opinion on them.

That is to say, Government influences public opinion, and may gradually bring public opinion to the approval of its policy: but yet Government is now governed by the people whom it governs.

The people requires of Government that it should (i) exercise an effective control over private action, which tends to inflict injuries on the nation or any considerable part of it (ii) carry out such undertakings as are needed in the general interest, but cannot appropriately be effected by private enterprise (this inability of private enterprise may be caused by (a) the magnitude of the task; or (b) the length of time which is likely to elapse before it yields a good revenue; or (c) the difficulty of charging those who benefit by it (i) in proportion to the benefit that each receives or (ii) without evasion of which the evader may lose indirectly nearly as much as he saves by evading the tax (tollgates caused even well to do people to adjust their drives in a way that hurt them a little, and benefited no one).

Thus a tax may be said to be good in so far as it is part of a system which

- (a) strikes every one who has no special claim for escape or is under no special obligation to bear its burden
- (b) can be levied without great waste, including avoiding the tax at some discomfort (Kennington toll bar)

But, since in effect such taxes cannot be collected cheaply (especially where evasion is easy), it is best to tax in gross. Income tax modified by partial exceptions for family etc is excellent: though some persons who are assessed to it, are able to point to waste sums with a higher income than theirs, who escape it altogether.

These considerations tell against Government undertakings, which do not pay their way and whose benefits are not evenly distributed. The present system (A) alcohol, tobacco, tea (B) income, (C) death duties is very good. The defence of (A) is that those whose votes may turn the balance in favour of Government extravagance, should be warned that they will have to pay some part of it.^{376, cvi}

³⁷⁶ In the margin of this paragraph is added in red pen "Introductory".

*[dated 8.10.23 and 20.12 23]*³⁷⁷

It is unreasonable for a man to enter on any undertaking without making some forecast of its future: if it is one from which he can withdraw quickly should it prove unsatisfactory, such as running a direct line of steamers between two ports which already have a good deal of indirect traffic with one another his forecasts need not range far ahead. But if it is a proposal to make new dock to hold the largest steamers of the time at the expense of many million pounds, he must forecast the future of shipbuilding and of the courses of ocean traffic a long while a head; for he will probably be acting for a company whose life will be much longer and whose affairs will be more important than his own. And, as the life of a great company is likely to be longer than that of a private business and concerned with larger affairs: so is the life of the State larger and probably more enduring even than that of a great company. The statesman must therefore look far a head; and his actions in the present must be governed more or less by forecasts which look far into the future. This obligation is of special importance in regard to such action as tends to affect economic structure: for the fruits of any decision in regard to that which is taken in one generation are not likely to be fully reaped in till many generations are past. It is therefore essential that attempts should be made by students of economics to conjecture what are likely to be the strong and the weak points of their several countries in the somewhat distant future. Such conjectures are likely to have but little value in themselves: but those which are made in one generation will be tested by the next. And indeed those among them

³⁷⁷ Text written in black pen on large blue folios, numbered pages 1-4. The text is very much amended, and clearly belongs to an old Marshall. The date "8.10.23" is written in black pen, the date "20.12.23" in red pen. At the top of the first page is added in red pen: "Book II, Ch I, II". On a small piece of white folio bound together with the blue folios of the main text is written: "Unfitness of democratic Government for bureaucratic work[.]

Gradual quenching of young men who enter a Government Department[.]

Intradepartmental muddling. This is to be treated briefly in general terms. Stress is to be laid on red tape inter departmental muddling [and so forth] broadly. These have called for special investigation in connection with the war; and though the conditions were exceptional, they were the same that produced the nominal efficiency of Government on which stress has been laid.

Political influences

Dockyard architectures

Then take envelope on Government undertakings and continuation of old MSS for chapter".

which have already been made falsified by the course of events, may be of better guidance to later inquirers than those which have proved correct: for successes are common on easy paths and the stumblings of wary walkers mark pitfalls on difficult paths.^{cvii}
*[undated]*³⁷⁸

Government should foster an industry

When it can do so without demoralizing influences, and when it is

- (1) nascent in the ordinary sense or
- (2) dependent on the growth of other industries which are not sufficiently extensive, even though they be not immature, and its growth will strengthen them and vice versa: while for any reason they cannot well be helped. But very often it is better to help these latter. Thus e.g. the opening out of the mineral resources of a new country may often best be promoted by subsidizing (land grants etc) railways working in this direction.

Or [when it] (3) confers benefits on the community other than those for which the community pays: i.e. gives them a large consumers surplus (such cases are most prominent in regard to education and transport. Consider also low water supply charges, directly or indirectly at public expense, to working men's dwellings[]).^{cviii}

*[dated 18.10.10]*³⁷⁹

2.2. Government Employment

Difficulties of Government employment

Although it attracts men who have had a high social training in youth (together with others) it gives little stimulus to activity: and examinations cannot succeed in testing spontaneity. It may seem that essay writing in examination does that: but quick plausibility counts for much in that: and a second rate, confident, plausible man, who has been well coached, may excel in it; while men of more solid parts fail. No doubt essays written

³⁷⁸ Text written in black pen on white folios of different sizes (even very small pieces). Text very much amended.

³⁷⁹ Text written in black pen on white folios, numbered pages 1-2. At the top of the first page is added in blue pencil "4"; in both the pages asterisks in red pen are added in the margin.

leisurely at home, if written without aid, are fairly good tests of real faculty: and essays competing for the chief University-distinctions are generally free from suspicion under this head. The power of thinking out important new thoughts can be proved only by thinking them out: and that is a task which can seldom be accomplished quickly. It is true that this power can be tested by examinations provided all conditions are favourable: but any near approach to perfection in such matters is practically unattainable³⁸⁰ *cix*
*[dated 18.12.23]*³⁸¹

Government. Competition in work versus competition in an examination room as employer in high grade work

Econt p. 176³⁸². It in effect arranges its people by (i) examination (ii) seniority. Therefore it does not get men selected by the vigorous methods of business: and “it is futile to compare the £3,000 a year of a Permanent Secretary, and the £ 8,000 or £ 10,000 a year – more in prosperous years – of an insurance manager”.

It might be added that there are in effect at least a hundred men (many of them working men) from whom the heads of big business are selected for every one whose expensive school training has been taken (unfitly) as a ticket of entry to the Civil Service[.]^{cx}

*[dated 30.7.21]*³⁸³

State in relation to labour

³⁸⁰ [Marshall’s footnote:] “No doubt mathematical problem papers, set by strong men, do achieve this result in some measure. But an important contribution to mathematical knowledge is generally the result of long sustained productive thought: ability for such work is not common, and it cannot be adequately tested in an examination room. It can be done by quiet continuous study: but, if the reward of success is admission to a privileged group of high officials, some candidates may be unable to resist the temptation of obtaining assistance from other men; or from publications, perhaps of foreign origin, that are not easily accessible. These are but instances of the many underlying causes, that hinder a bureaucracy, however well organized, from attaining and maintaining a constructive efficiency as high as that which might have been attained by men of equal ability and energy under the bracing influences of free competition in the open arena of business enterprise.”

³⁸¹ Text written in black pen on white folios, numbered pages 1-5.

³⁸² “The Civil Service”, *The Economist*, 30 September 1921, Issue 4066.

³⁸³ Text written in black pen on a white folio.

Conf (CD 3864) 1908 “Cost of living of the working classes”³⁸⁴

It is right that wages of postal servants should be graduated with regard to local cost of living; because the location of the service is fixed.

But Government factories ought to expand where land and fresh air are cheap, and rather dwindle than expand where things are dear; and therefore – special allowance being made for special hard cases – no such graduation should be made with regard to Government factories or contracts. ^{exi}

[dated 24.2.08]³⁸⁵

Regulation of wages

What would be the results of a legal uniform minimum wage at

- (i) a very low level[,] say 15s
- (ii) medium say 25s
- (iii) a high level[,] say 40s (women and children in proportion)

[Cases taken into account:]

- I Country isolated
- II Foreign trade etc counted in

I Isolated country

15s. probably almost unmixed good, provided those who could not earn it were kindly but very firmly disciplined for the good of

- (a) themselves, a little
- (b) their children and the country, a great deal

25s. In England at present this would throw on the State paternal care for many people who on the whole would be better left to care for themselves; the State exerting itself to increase directly and indirectly (i.e. through action on the parents) the efficiency of the rising generation, so that the minimum might be fixed (the purchasing power³⁸⁶ of money remaining

³⁸⁴ Parliamentary Papers: “Cost of living of the working classes. Report of an enquiry by the Board of trade into working class rents, housing and retail prices, together with the standard rates of wages prevailing in certain occupations in the principal industrial towns of the United Kingdom. With an introductory memorandum. Presented to both houses of Parliament by command of His Majesty”, London, H.M. Stationery off, Darling and son, Ltd, 1908.

³⁸⁵ Text written in black pen on white folio.

³⁸⁶ Abbreviated as “pp”.

constant) at 20s if not 25s in say 50 years time

40s. unmixed evil; indeed madness.

Laws fixing very high the minimum of wages in all trades would lower earnings of all classes much above that minimum, also real rents. But machinery would be in increased demand and interest might not fall at once.³⁸⁷

The extent of the dislocation would depend on the extent to which Government was able to turn to useful account the labour of those whom no employer could afford to employ.

Whether high or low, the minimum might tend to encourage ca-canny i.e. people whose healthy work would be a little above the minimum, without the rule, might work down to a level rather below it because³⁸⁸ (i) the employer would gain nothing by discharging them and (ii) they might find the pleasures of a good conscience in making demand for the labour of others by shirking[.]

But if ca-canny did not set in, and if the Government used well its power over the residuum, the result might be a rise in the general character of the work done.

The chances are however that a nation which was foolish enough to try this particular route for dealing with poverty would not have the exceptional energy and power of initiative required for avoiding the worst evils to which it naturally points.

II Foreign Trade

There might be a little increased demand for machinery: but soon capital would emigrate. If the minimum were high Government would have a vast quantity of labour thrown on its hands, and taxes would push capital abroad faster and faster. Probably heavy taxes would be put on articles of consumption so that 35s might purchase not more than 25s did before (less gold would emigrate with such tax than without).

If the level of energy rose, the country would specialize on high class industries even more than in the last case: otherwise the results would be nearly similar.^{cxii}

*[dated 25.2.02 and January 06]*³⁸⁹

³⁸⁷ "Isolated country" (we omit repetition in the main text).

³⁸⁸ Written as a symbol.

³⁸⁹ Text written in black pen on white folios, not numbered. Added in red pen in the margin of the first page "Feb 02" and then "Jan 06".

Government manufactures etc

Goschen³⁹⁰ was asked on 14.4.99 why Deptford Labourers should not receive 24s a week, which was acknowledged to be the fair minimum rate of wages in London; said that Woolwich and Deptford Labourers already received 1s a week more than in any other dockyard and that the real difficulty was sent. Government could not tax people all over the country with perhaps 13s a week to pay these in London 24s. That seems absolute, there being no reason from the point of view of the country why the work should be done in London. Goschen proposed two alternatives as under discussion (i) to remove the dockyards from Deptford, the other to house the 150 labourers by special arrangement. If government had bought originally the land on which these labourers dwellings were built, part of the difficulty would not appear on the surface. But most of it would be really there. For government would be paying a bounty to people to do work in London that could be done cheaper elsewhere, and mainly at the expense of elsewhere, out of speculative profits in one of these bits of Government land investment which had turned out well.

It would seem to be reasonable that

- (i) where wages are competitive, high sanitary conditions should be enforced and then £ s d left to settle whether London was the fit plan for an industry
- (ii) where wages were non-competitive, London would be acting doubtfully if she bribed people with London money to do work in London that could not be done there without a bribe (i) but that English, as opposed to London, money would undoubtedly be wrongfully spent in such a way.^{cxiii}

[undated]³⁹¹

2.3 Regulation of Trusts and Cartels

To regulate the action of monopolistic trusts and cartels in the public interests may prove to be beyond the power of any Government: but good

³⁹⁰ G.J. Goschen (1831-1907), British politician and businessman. In Marshall's private library there are a few volumes by him, as well as several articles collected in the bound volumes (see Caldari 2000 and 2003).

³⁹¹ Text written in black pen on white folios, numbered – 2. A large asterisk is drawn in black pen above the last part of the text.

service can be done to the people by defending independent producers against malignant underselling. The national aspects of this question cannot however be dissociated from the international, which will be discussed in the next Book.

When however we pass to the State regulation of manufacturing monopolies no such assumption is possible. The manufacturer must consider whether the price of his raw material will rise or fall; and, with every change which the course of events may occasion in his judgment; he must be free to accept a price today, which he had refused yesterday; or to raise his price for a new order above that which he had accepted for the last. Any regulation of prices therefore which aimed at preventing a trust from making use of its partial monopoly to exact too high prices from the public would raise problems of quite a different order from those which have been partially met in the regulation of railway charges: and there is no experience which tends to show that it could be done without taking on to the shoulders of the State the effective responsibility for the risks of the business.

State ownership and management of railways is practicable; and its advantages go a long way towards compensating for its evils: though especially in a democratic country, it leads a great number of citizens to regard their power at the ballot boxes as a business asset to be skilfully used for the increase in their own salaries and wages, rather than as a chief means for the discharge of their duties of citizenship. But State ownership and management of manufacturing industries would arrest industrial progress, and offer scarcely any advantage in return. For indeed it is probable that a progressive manufacturer creates, considers and decides upon more new suggestions every year than come before the whole staff of an average Government Department in the same time. And yet State ownership would escape some of the difficulties involved in such a regulation of manufacturing trusts as should secure that they laboured energetically for efficiency, and so adjusted their prices generally that the people received the same fair share of the benefits of industrial progress as would come to them in a market that was not under monopolistic control.

Consequently the more responsible advocates of the regulation of trusts by the State have laid stress chiefly on its duty to protect the independent producer against the "piratical" war which is sometimes waged on him by a monopolistic trust or cartel, endowed with great capitalistic strength: the war waged by the State being generally more fitful, that waged by the cartel being generally milder but more persistent. There can be no doubt but that in America, Germany and some other countries the need for vigorous action by the State in this direction is rising rapidly. The

bureaucratic strength of Germany will stand her in good service here, though the ³⁹²influence which giant businesses have been able to bring on her Government in recent years have been ominous. For America the task may be less congenial, and perhaps less efficiently performed.

Should the task be fairly faced, it would probably be necessary to create several special Authorities, each of which would have to discharge duties more onerous than those of a Railway Authority when bonâ fide grappling with those difficulties that have recently been set out. It would impose a great strain on the resources of a country even so full of practical ability and high character as America is, to be called on to provide the large number of men endowed with the rare qualities need[ed] for the higher work and the large army of subordinate officials occupied in ascertaining facts about other people's work would be a heavy burden on the Exchequer.

Such a policy may be of national service: but it must go to the root of the matter. At the root of the matter lies the question: How far can the State allow trusts and cartels to attain so great a power as to be able to fulfil their claim to steady the course of industry; and at the same time to rely on the corrective forces of independent competition to protect the people from the two twin dangers of monopolistic extortion, and monopolistic neglect of progressive enterprise[?]³⁹³

³⁹² Word deleted at this point: "political".

³⁹³ [Marshall's footnote:] "An instance of rough and ready methods which might be of some avail against "piratical" discriminations, but would be inapplicable in the larger problems of regulation may be given. It has been urged that when the Standard Oil Company wishing to drive a rival oil out of any particular district, sells its own oil there at a price much below that which is charging elsewhere. Its purpose would be frustrated by an order that for, say, the next six months it must sell the oil every where at that price. And no doubt such an order could be enforced fairly well without interfering with the main business of the Standard Oil Company. For, as a rule, its sales are continuous: and it seldom has any legitimate cause for a sudden change in its prices, such as is often necessary in metal and even in textile industries. But, on the other hand it must be remembered that the Company has far too great resources behind it to be broken by heavy losses on a single half year[']s sales; and meanwhile its competitors all over the country would need to sell at the same low price. To remedy this evil it has been suggested that the offending trust should be compelled to pay to all its competitors the difference between the normal price and this specially low price on all their sales during the six months. This measure might be beneficial if it could be carried thorough. But perhaps its stringency might weaken the energy of that public sentiment against destructive underselling, which is essential to a reform so arduous and opposed by so many powerful forces".

Thus again we are brought back to the position: Combination claims to introduce stability into business, and yet to conserve the interests of the general public; because their monopoly is not absolute, and it will be speedily overthrown by affective competition if they use it harshly. But this claim raises very complex issues. In order to disentangle them, we must inquire how far measures, adopted in the interest of the stability of the business of one trust or cartel, will affect the stability of other businesses in the same or other industries; and even without increasing the instability of that margin of prices, above cost of raw material, on which depends the prosperity of those who use its products. This is an obscure problem even in regard to an isolated country; and its obscurity is increased when we have to consider the chance that the goods which a cartel or trust forces on foreign markets below cost of production, in order to steady prices at home for its own products, are likely to displace in those markets some of the exports by neighbouring industries in its own land. This problem must therefore be postponed until we come to consider international trade in relation to industrial fluctuations in the next Book.^{cxiv}
[undated]³⁹⁴

Government Monopolies

are better than private monopolies in so far as

- (a) low charges are probable
- (b) if big charges are made, the public gains

[are] worse in so far as private monopolies may be regulated by authority: but authority cannot effectively regulate itself: also they are likely to be hampered by officialdom and traditions which arose under conditions no longer existing.

Munitions and some other things can be organized on larger scales by Government than by any one else: and complaints of short or low quality supply quickly reach people who have the ear of the Government and of the public. General extension of Government works would repress imitations[.]^{cxv}
[undated]³⁹⁵

³⁹⁴ Text written in black pen on white folios; the first paragraph underlined here is written as a title on a blue folio. Text very much amended.

³⁹⁵ Text written in black pen on a blue folio.

Regulation of Railways³⁹⁶ and Trusts and Trade Unions³⁹⁷*Laissez Faire*

From ye first Principles

α prohibition is an evil

β imposition of work on Government: causes it to do other, and perhaps more necessary work, less well

γ Government is largely dependent on expert advice, and that is apt to be on side of special classes v[ersus] public

It follows that:

1. Government should not intervene, and especially should not intervene to prohibit unless there is either a fair certainty of gain considerably greater than the evil of the disturbances or a fair probability of gain very much greater than the evil of the disturbances[.]

2. As to whether combinations “in restraint of trade” should be treated more severely if their pressure is such as the middleman can easily pass on to ultimate consumer, than if such as the middleman must chiefly bear himself, there is a strong argument in the affirmative that the middleman’s case is apt to be the better set out; [there is a strong argument in the] negative [that the middleman] may be grievously affected by an unexpected pressure concentrated on him: a great loss on one person is more grievous than a moderate loss on many equal in the aggregate; though a moderate loss is not more grievous than a multitude of small losses, equal in the aggregate.

T.U. officers are generally to be judged lightly because³⁹⁸ (i) a gain to members of TUs is prima facie more worth having than an equal aggregate gain to the community and (ii) TUs are in themselves a most important, perhaps the most important means of education of the working classes. But this presumption is reversed in so far as the restrictive action of TUs presses down those who are in a lower grade than themselves. Equal justice does not require that a TU should have only as much liberty to restrain trade and industry as any other combination. On general ground it should have more liberty: but as it is specially likely to be tempted to oppress those who [are] the most helpless, its actions need close scrutiny.

3. Government ownership and management are seen at their best in

³⁹⁶ Written “Rys”.

³⁹⁷ Written “T.U.s”.

³⁹⁸ Written as a symbol.

railway (and postal) services, partly because³⁹⁹ (a) if government is slack the people will know and complain therefore⁴⁰⁰ Government sluggishness is relatively little to be feared. It is true that a change by Government authority in any one railway rate is likely to disturb so many competitive routes directly and indirectly that the Government department or commission which undertakes it must base itself on a vast knowledge: but most of the knowledge needed is of a kind that can be explained. Government should however foster free competition with itself especially by water and motor, charging tolls in both cases, but in both cases low tolls.

4. The arguments against giving Railways⁴⁰¹ Commission absolute power in so far as valid are on same lines as objections to a single house of Legislature. No doubt the L.C.C.⁴⁰², like the Board of Trade of an absolute Interstate Railways⁴⁰³ Commission is liable to be disciplined by Central Legislature, and so far the parallel does not hold. But there seems to be much to be said in favour of Judge Grosscup's plan⁴⁰⁴ (see Daish's article and long notes on Moody's Magazine Jan[uary] 06⁴⁰⁵)^{cxvi} [dated 5.7.06 and 19.3.17]⁴⁰⁶

Functions of Government. Railway rates
Econt⁴⁰⁷ 132-3 describes a Bill (not Act)

It seems (a) to override the plea that "railway cost accounting is impossible (But of course there is some convention in all cost-accounting; and I shall be surprised if railways do not dodge round the rule. That can however hardly happen in my time). Exceptional rates for less than 5% are

³⁹⁹ Written as a symbol.

⁴⁰⁰ Written as a symbol.

⁴⁰¹ Written "Rys".

⁴⁰² London County Council.

⁴⁰³ Written "Rys".

⁴⁰⁴ Peter S. Grosscup (1852-1921), an American judge who devised the "modified reorganization plan" for the Chicago Railways Company.

⁴⁰⁵ J.B.Daish, "Drastic Legislation Unnecessary", *Moody's Magazine*, Jan 1906, pp. 158-60, Part of "Symposium: federal control of railroad rates", pp. 147-209.

⁴⁰⁶ Text written in black pen on white folios, numbered 1-5. Above the text, added in blue pencil "For M 19.3.17".

⁴⁰⁷ "The Railway Rates Bill Through Committee", *The Economist*, 23 July 1921, Issue 4065.

vetoes because controlling them would cost much: and the benefit would be but small - I think that is right. Those above 40% above standard need special authority.

The main point is that a Rates Tribunal will not fix maxima rates and fares: but will fix actual rates and fares! The⁴⁰⁸ Econ[omis]t says that the younger men reject the old opinion that cost-accounting is impossible. My opinion is that real cost accounting is impossible. But a set of carefully thought out rules for estimating costs may be set up: and accounting in accordance with those rules may be made compulsory. I think that would be a gain on the whole.

The Rates Tribunal is to revise the rates periodically. On a first view like the bill.^{cxvii}

[dated 23.7.21]⁴⁰⁹

See letter in today's Econt⁴¹⁰

Government Railways⁴¹¹

The British Government management of the railways⁴¹² during the war cannot be judged without taking into account the facts that it has borrowed some £ m 100 to make good and their deficit under its management; and has thereby kept traffic on railways⁴¹³ which should have gone by sea (at all events after cessation of submarines)^{cxviii}

[dated 30.8.19]⁴¹⁴

When attention is called to such reasons for questioning the claims made on behalf of State controlled railways, refuge is sometimes taken to the

⁴⁰⁸ The following part of the text is written on the reverse of the folio, to which Marshall refers with "TO" (meaning "Turn over").

⁴⁰⁹ Text written in black pen on a white folio. Added in black pen with a different ink (and rather different handwriting) in the margin of the text: "Of doubtful value. In any case later information must be had before saying anything on the subject". The date it written with the same pen as the main text; this latter annotation seems to be subsequent.

⁴¹⁰ "Railway Rates", letter to the Editor of the Economist by T. Crook, *The Economist*, 30 August 1919, p. 365.

⁴¹¹ Written "Rys".

⁴¹² Written "Rys".

⁴¹³ Written "Rys".

⁴¹⁴ Text written in black pen on a white folio. At the top of the text is added in black pen (but with a different ink) a large asterisk.

lowness of the costs at which Government is supposed to have produced munitions during the war; with the suggestion that the mere substitution of continuous repetition work for skilled manual work is inadequate to account for the difference in cost. But in fact the costs thus quoted are not full true costs, but only a part of them and not always a very large part. For the full costs which must be covered by the prices obtained for the products of an industry in order to maintain it permanently, must cover in the long run all the capital cost by all the many businesses in it which fail: of course such prices yield high gross profits to successful businesses when all their plant is being run over time, and the net profits even of such firms, reckoned after allowing for the depreciation of plant by wear and tear, and by obsolescence, are very much less than their gross profits. In many estimates of war costs little or no allowance is made for these matters. But considerable part of the huge loans which the Government has raised during the war has been spent on plant which will be of little value after the war: if appropriate shares of that were added to estimated direct costs of munitions, the figures quoted would need to be greatly increased.^{cxix}

[undated]⁴¹⁵

Post office

The tendency is to cheapen for long distances, rather than for short. That is to be defended by arguments from

- (i) simplicity
- (ii) the small difference in cost to State of carrying large and small parcels. E.g. Subsidies to mailships are expensive in proportion⁴¹⁶ to frequency and speed of journeys demanded; not weight of letter bags[.]

On the other hand relatively high charges for short distances are to be condemned because they take away from the people a large consumers['] surplus which modern agencies have brought within their reach, and which would be unsuitable were it not for the Post Office.

While the consumers['] surplus which the Post Office gives to the people by low charges for long distances is only a present, or on a smaller scale, of what only the P.O. would give.

Of course the political arguments are in favour of cheapening long rather

⁴¹⁵ Text written in black pen on a large white folio; it is in a footnote.

⁴¹⁶ Written as a symbol.

than short distance charges[.]^{cxx}
 [undated]⁴¹⁷

2.4. Patent Rights, Functions of Government in regard to property in ideas

Constructive uses of

Patent Rights, Functions of Government in regard to property in ideas.⁴¹⁸

Plausible arguments can be urged in support of Protection to a nascent industry in a new country: but in fact Protective duties are often used by powerful combinations of manufacturers as the means of maintaining prices but at levels which yield monopoly profits. Chief claimants for protection are to be found among powerful industries in rich and powerful countries[.]⁴¹⁹

Pioneers of new paths in thought or action are often sustained by the consciousness that their services to the world will recognized after their death if not before it. The joy, that belongs to a successful struggle against difficulties, is a high reward, is often their only reward; unless indeed they are able after their death to watch the benefits which their work confers on their country, and perhaps on the world. But there is one large class of exceptions: a new constructive idea, if incorporated in a definite invention, can generally obtain a “patent” right to its exclusive use in its own country, and perhaps elsewhere.

Even if this idea is not directly applicable to the processes of industry, property in it can often obtain some protection from the laws of copyright. The assertion of an exclusive claim of this kind by anyone, who can afford to forego it, may appear to be a rather harsh use of the rights of property: but, in fact, much time and money need to be spent, as a rule, in developing details subordinate to the central idea. The inventor may be rich; and the thought which he gives to it may be a labour of love: but even in such a case, the world is likely to gain more than it loses, by increasing the resources of which he makes such good use. But a mechanical invention is often surprisingly greedy of additional costly experiments for its development: and even the large protection to the inventor, which is now given by Patent Laws, has not sufficed to throw complete discredit on

⁴¹⁷ Text written in black pen on a white folio.

⁴¹⁸ This title is written in black pen on a blue folio.

⁴¹⁹ This paragraph is written in black pen on a blue folio. Before the text there is the number “§5”.

the old saying: “an original inventor is likely to die poor”[.] Men of ability, but yet of an order lower than his, will simplify his construction and lower its costs: and they will add numerous small but cumulative improvements in matters of detail; the patent for a single one of which, when the machine is already in general use, may bring in more gains than the original inventor derived from his great creative idea. ^{cxxi}
*[dated 15.7.21]*⁴²⁰

Patent rights are monopolies which sometimes form the kernel of others much larger than themselves: and are apt to fall into the hands of powerful capitalists. But the patentee himself is often not the chief author of the invention of which he secures the monopoly. In this and other respects they are contrasted with copy rights. ⁴²¹

A patent is supposed to confer on an inventor the exclusive right to make use of his invention for a limited number of years; the right being transferable like any other property. The invention may be embodied in the material form of a new commodity or implement or, in certain cases, it may be a mere process. By the grant of a patent the inventor is supposed to be rewarded for making the invention; and for publishing a full description of it before he begins to use it in making goods for sale. The monopoly thus conferred is further justified by the inducement which it offers to invest capital and labour in adapting the fundamental idea of the invention to the practical exigencies of production on a commercial sale.

This last stage is mainly occupied with details: but they are often expensive, and occupy a good part of the time which the patent has to run. Of course they also may be able to secure patents: and if they are vital, and there are no alternatives to them, or these alternatives can be “blocked” by patents which are perhaps not intended to be used, the monopoly conferred by the original patent is in effect prolonged. This may give rise to some playing at hide and seek. For instance an essential detail is sometimes deliberately omitted from the first patent; and is patented later, when all is ready for productions on a commercial scale; and thus a full length of working life is obtained for the main patent. Some times again, when an inventor has improved on his original idea, he locks up the improvements and continues to work on the lines of his first patent; though he knows

⁴²⁰ Text written in black pen on blue (only the first two) and white folios. Not numbered.

⁴²¹ This title is written in black pen on a blue folio; Added at the top of the page “Note on Patents and copyrights”. Before the text there is the number “§10”.

these not to be the best possible. He might conceivably find his improvement anticipated by a rival patent; but the risk of that is often very small. So he runs the risk, and may succeed in getting in effect a monopoly for a double term. If a patentee has several patents, no one of which is very effective without the others, and he can keep on improving the other various processes step by step; and he is likely to time his patents so that no important group of them run out together: and thus keep something of a monopoly for a long time. This is specially easy in the improvements that can not be brought from the academic to the commercial stage without much expenditure on experiments. For no one but the owner of the dominant patent is very likely to incur such expense on the chance of a deferred benefit, when that patent expires. Illustrations of this are said to be afforded by the great electric light and telephone industries.

The ownership of the patents is often taken over by a powerful private firm or joint stock company, in which the master mind is the original patentee, or perhaps a shrewd organizer, who bought the original patents from one or more men who had not enough capital to develop their own inventions. In either case but especially is the latter a staff of inventors is likely to be hired, supplied with laboratory and other facilities; and set to make the series of secondary inventions needed to prolong the monopoly: and thus capital, associated with organizing faculty puts the yoke on inventive genius.

A large capital is indeed often needed for the legal expenses of defending a patent against piracy or the encroachments of a near neighbour. And firms claiming cognate patents are often urged towards fusion in order to stop this expense, of legal conflicts with one another, and to bar as many as possible of the avenues by which a new inventor might work his way into the trade. Fusion enlarges the fund available for fighting him in law courts, by honest means and perhaps by others. And it removes the danger that after bringing up one of the patents which gave access to the trade, he might develop by means of his fresh invention so as to take the market from all others. In addition to these strategical advantages fusion offers the constructive gain of enabling the best points of each of several sets of patents to be brought together in one new process better than any one of the old; while perhaps several selections may be made, each specially applicable to some class of the products of the industry. But such cases are rare, as may indeed be inferred from the arguments of the advocates of monopolistic combinations. At best they get round some of those hindrances to best use of inventions which arise from defects in the administration of patents. It should be observed however that the stronger such capitalistic power of a great industrial combination has become, and

the larger its scale of production, the more is it generally inclined to prefer the monopoly which comes from the possession of important secret processes, or even appliances, to that which comes from patents. For the publication required by patent laws, often sets others on the search for parallel routes to nearly the same and thus the chairman of the Steel and Wire Company admitted to the Industrial Commission that while they keep their prices for smooth wire down to at a level that would meet free competition, they put the price of barbed wire up fifty per cent, because they “practically own every patent on barbed fence wire and machinery in existence in the United States”⁴²². They had paid many hundred thousand dollars for these patents and many more “in litigating and sustaining them”.

A discussion of the functions of the State with regard to inventions does not belong to this part of our inquiry. But it may be observed that in America some guidance is given to patentees by the officials of the patent office; and this lessens the objections raised by Lord Armstrong and others to the granting of patents on the ground that the bona fide inventor has to spend a great part of his time and resources on the study of hundreds perhaps tens of thousands of patents, which he may possibly be infringing: after all his patent may be found by the courts to be invalid, or he may have spoilt his patent to avoid others which are really dead: either because they have some weak spots or because their owners have not the rare abilities needed for developing practically a good idea.

This points to the important question whether much of the mental force devoted by Government to branches of business in which private enterprise would work fairly well, might not be advantageously diverted to that most difficult urgent and neglected task of patent administration. For that cannot be undertaken by private enterprise; and essentially belongs to Government while its negligent performance may perhaps have throttled more inventions than have been made by Government officials since the beginning of history.

Some of the worst defects of the English Patent Law are now in process of removal. See Report.

Copyrights are sometimes classed with patent rights. But they are fundamentally different. For a patent is commonly obtained by an inventor who is a little, sometimes only a few days a head of others, in fitting in the last link to a large chain of inventions and practical experiment which has long occupied many hands and minds. Had the patentee not lived, the same or nearly the same invention would often have been made a little

⁴²² Most probably reference is to The Barbed Wire Patent 143, U.S. 275 (1892).

later by others; and the patentee can prevent them from pursuing to its end their nearly accomplished task. But there is nothing of this kind in a copyright. One person who has written a poem or work of history, of science or of fiction, cannot thereby prevent another from using the same general groundwork as his own in writing a similar book. His right to his own words is like the right of an inventor to his own individual machine. He cannot prevent others from employing the same idea in their own words in the same way as the patentee can prevent other machine makers from embodying his idea in their materials.^{cxxii}
[undated]⁴²³

What is Protection. The Patent Law (1907?)⁴²⁴

It is a developing of certain industries by the negative process of refusing permission to some people to do what they would like to do and can do, so as to get a high pressure at the right point; as e.g. when one shuts the blowers. If this development is needed in public interest the protection is good. Patent rights protect the inventor. The old Patent laws protected commercial sharks. The new patent laws exclude such sharks from the Protection i.e. they are anti-protection.^{cxxiii}
[dated 23.11.08]⁴²⁵

Protection and the Patent Act

Bonar Law⁴²⁶ speaking at Sheffield yesterday spoke thus:⁴²⁷

⁴²³ Text written in black pen on a blue (title only) and white folios, numbered in normal pencil pages 101-116. Text very much amended; numbers of pages changes several times.

⁴²⁴ Although Marshall was unsure of the date, putting this question mark, he was right, since the "Patent and Designs Act" was in fact promulgated in 1907.

⁴²⁵ Text written in black pen on a white folio.

⁴²⁶ A. Bonar Law (1858-1923), British statesman. Marshall's private library (Mary's catalogue) includes his book *The fiscal question*, published in 1908.

⁴²⁷ A long arrow is drawn at this point towards the following text cut out and pasted from a newspaper: "There was the Chancellor of the Exchequer, who has passed the Patent Act, which was not merely Tariff Reform, but more extreme than anything Tariff Reformer desired (Laughter and cheers). What was the object of the Act? It was to secure the patented articles consumed in the United Kingdom should also be produced in the United Kingdom, so that our working men should have the benefit of the employment in producing them. That was a good principle, but how did it tally with the theories their opponents gave them in other directions?"

No doubt that

- (i) the buying of home commodities rather than foreign tends to turn terms of exchange in favour of home producer a very little.
- (ii) Work on much patented methods is likely to make for leadership[.]
- (iii) A Patent is a prohibition to others to work: it is a special Protection of an individual: the new Patent Act requires that he should show that he deserves that protection from the British point of view[.]^{cxxiv}

[dated 6.11.08]⁴²⁸

Reference to this speech in “Conservatives in Council”, *Manchester Guardian*, (20 November 1908).

⁴²⁸ Text written in black pen on a white folio. A large asterisk in red pens added at the top of the text.

CHAPTER II

TAXATION

1. General Principles of Taxation

1.1. National and Local Taxation

Everyone has duties to himself and to others. Duties to himself are connected with the development of strength of character, of mind and physique. Duties to others call for their avoidance of actions that may injure them; and the rendering on occasion of service to them. Some of these duties extend very wide, but each of them comes under one or more of the heads honesty, in word and deed; kindness, even at expense of considerable self-sacrifice, and efforts to improve the physical mental and moral conditions of others.

But the reach of an individual in such matters is necessarily narrow; and many of his duties to his fellow creatures must be rendered through powerful agencies to the support of which he contributes his share.

The chief of these are national; a local Government, or perhaps more than one that is to say problems of taxation have three sides: one is concerned with the purpose for which public revenues are needed, a second to the equity of the distribution of the burden of obtaining these services, and the third to the selection of [routes.⁴²⁹]^{cxxv}.

[undated]⁴³⁰

⁴²⁹ Word deleted in the manuscript.

⁴³⁰ Text written in black pen on a large blue folio. At the top of the page is written “Taxes[:] Begin by full reference to Principles [written as a symbol]”.

Funding v[ersus] taxation

1. Separate moral questions from economical[;] discuss each separately[.]

A large tax can only be levied on property: cannot be levied on labourers who yet can be made to pay part of the interest of the loan. If we consider the case of a man whose share of the gross sum is £ 100, and he advances £ 100 to the government, receiving £4 per acre: in exchange which £ 4 per acre is taken from him (together with expenses of collection & c.) by taxes; we see that he is in no way whatever better off than if the tax had been levied directly.

Neglecting the power of borrowing from other countries the question between taxation and funding is now if the gross sum be not too large for labourers to be able to pay their share, excepting in three ways (i) it is easier to evade dishonestly one large tax than a succession of small ones. Deception will be practised with more energy and at greater risk; (ii) A loan comes from the capital of those who are making the least use of theirs. This is obvious on the surface. If a tax be levied the manufacturers & c. can borrow their share from these; true but that extra value which credit gives to capital by putting it in the right place will be to a certain extent diminished. It is from this that there arises what truth there is in the objection to paying off a debt – that it is better to let the capital fructify in the pockets of the people. (iii) There are some articles which it is practically very difficult to tax: consequently, a heavy tax is likely to have the evils in general accompanying a differential tax.

An argument for funding is that a country is poor and likely to be able to borrow the larger part from abroad, and for this is not enough, should be likely to make a profit out of the capital thus left in the country more than sufficient to pay for it.

In general never fund if you can levy without social inequality, or very bad taxes. If you consider that a tax ought to be borne by the wealthy classes levy it at once, if possible by a direct tax: this must be modified by the consideration that [if] it falls heavily on capital productively employed this is not identical with capital employed as wages labourers may be more heavily pressed upon than they would be in consequence of the interest of the tax being paid by their masters in after years.

[...]

Discuss the question at some point whether a national debt is a real burden; point out in what limited sense it is true that the interest of it is paid from the right hand to the left. One important point is that it is a permanent premium on exportation of capital. A sudden tax would best have the same effect in this way[.]

Tax on wages.

A tax on wages is in the following discussion taken to mean a tax on the earnings of artisans and labourers in the ordinary sense of the word.

A tax on wages is not likely to alter the relative expenses of production⁴³¹ of different commodities of ordinary consumer (including pictures & c.) in the long run: it has practically no effect upon normal values.

But its immediate effect is to raise the final utility of machinery and upper class labour in production: and therefore⁴³² to benefit capital owners, business managers, and professional men relatively to wage-receivers. That is to say the tax presses on the former, either not at all, or at least very slightly in comparison with a tax which levied the same amount [with] equal distribution.

After a time, as the capital got comes out it would have to be replaced: and the action of the tax on population would have caused real wages to rise so as to cover the greater part of the tax: so that the capitalists who wanted new machinery made would bear a part of the tax. But on the other hand, business managers would always find their labour at a higher value in production relatively to the wage receiving class than it would have been without the tax and with the same number of population. Thus professional men, whose labour is not in any way a substitute for wage-receivers, would lose unmitigatedly through the diminution in the supply of and consequent high values of wage receivers['] labour. But business managers and in general all industrial classes who escaped the tax would, while losing in this way, gain in consequence of their labour being substituted to some extent for wage-receivers labour. When the tax had had its full effect on population, the net effect even to business managers & c. would be loss, but probably not more than, perhaps not quite so much as if the taxes had been levied on things in general or incomes in general.

The general character of the solution is unchanged if the tax be one on all incomes except profits. The immediate effect of a tax on necessaries, is not like that of a tax on wages, to cause labour to be superseded by machinery and business ability. But except in this particular a tax on necessaries, in so far as it falls specially on the labourers, has the same effect as a tax on

⁴³¹ Written as "X of P".

⁴³² Written as a symbol.

wages. A tax on necessaries in so far as it is a tax on raw produce tends to lower even rents and raise the prices of corn in addition to the above effects. Vice versa, since wages are a chief element in expenses of production⁴³³ of raw produce therefore⁴³⁴ a tax on walls has a great part of the effect of a tax on raw produce. Taxes on labourers commodities of any kind are borne in the main by labour until they have time to affect [the] population; and if they affect the efficiency of labour they may permanently depress his condition.⁴³⁵ *cxxvi*
*[undated and dated]*⁴³⁶

Local Taxation

There are various grounds on which a thing may be chosen as a fit subject for local taxation

- (i) that the thing really belong to the State; and is not in private “ownership”, but only in private “holding”, subject to special obligations towards the people and the government of the locality as well as of the country as a whole
- (ii) it stands to have its value raised by the expenditure to which the taxes will be devoted
- (iii) its owner stands to have his personal comfort or that of his tenant increased by that expenditure
- (iv) It is fixed in the locality and patent and will not be quickly removed or concealed to evade the tax⁴³⁷

(i), (ii), (iii) are maxims of justice, are matters of degree, must be considered relatively to other maxims and to the details of other taxes: they are not capable of being applied crudely to all kinds of expenditure in like degree, nor without detailed study of local and temporary conditions. (iv) is a maxim of convenience: but rises to the first place when loans are raised on the credit of future local taxes. If the expenditure of the loans

⁴³³ Written as “X of P”.

⁴³⁴ Written as a symbol.

⁴³⁵ The text of this latter paragraph is added in normal pencil. The handwriting is of an older Marshall than that of the previous part.

⁴³⁶ Text written in black pen on white folios, numbered pages 1-3 for the part “Funding v taxation” and again pages 1-3 for the part “tax on wages”. The handwriting belongs to a rather young Marshall. The pages are bound together inside an envelope titled “Taxation”; in the margin of the title is added in normal pencil: “20.6.23; Probably useless”.

⁴³⁷ Above this list a large asterisk is drawn in red pencil.

gives special benefits to the voters that is a prima facie reason for giving local property as distinguished from local persons a voice in deciding perhaps what local taxation should be raised at once, but any how what local taxation should be pledged in the future by loans.

(i) applies to land proper only, (i), (ii) (iv) and to a slight extent (iii) to all real property as commonly understood; (i), (ii), (iii), (iv) to dwelling houses[.]

Tax on dwelling houses is for the best (bar land proper): [it] would tax nothing else (of course it would be graduated) in a country in which total burden of taxation was so small as not to distort house building if all levied on houses. And if taxation on factories and farm buildings & c. is to be measured against taxation on houses, no doubt the latter has it. But in such cases, when wanting to abolish a tax, you must compare it not with those whom you would retain any how, but with those whom you would abolish first if you abolished or those whom you would have to add if you required more taxation. And, great as are the grievances and vexations and anomalies (a) between individuals in the same occupation, (b) between different occupations taken as whole; involved in our system of local taxation. I doubt whether they are as great as those involved in (i) income tax (ii) customs and excises taxes (iii) stamps.⁴³⁸

Cannan Local Rates p. 22⁴³⁹: he says “In the 14 and 15 century the accepted view was that each inhabitant should pay acc[ording] to his ability or substance, for in those days ability and substance meant much the same thing: the man who has a large income without having a large capital is a product of modern civilization. Some thing in the nature of a valuation list soon sprang up” for the sake of definiteness of ideas. I.e. In agricultural community land, perhaps taking acc[oun]t of live stock, in an urban community “the size or value of houses occupied”. (He gives in footnote⁴⁴⁰ on p. 23 some curious confirmatory evidences)

NB he says a tax is so much per unit: a rate is that portion of so much aggregate levy as the proper officials shall rate individuals at pp. 4,5

But so far, we have been concerned chiefly with rates for roads bridges etc. The Poor rate introduced a new principle and started anew. He gives interesting short summary of many poor laws. Conclusion: basis was intended to be ability in the sense of income. It was an income tax: but the difficulty of a man whose income came from more than one parish was

⁴³⁸ At the end of this first part of the text is added the date “26.viii.96”.

⁴³⁹ E. Cannan, *The History of Local Rates in England. Five Lectures*, 1896, London: Longmans Green and c. In Mary Paley’s catalogue only the book *The History of Local Rates in England* (1912) is recorded.

⁴⁴⁰ Written in abbreviation.

shirked: neither all favourable.

Cannan Local rates p. 78 says The act of 1601 was taken to mean that people must be assessed to poor rate in proportion to “estates”. Also herein the charge of family reticence and countenance is in some measure to be regarded”. E.g. A with £500 and only a wife is to be rated at as much as B with £1000 but many children besides wife. The rent is no standing rule, for circumstances may differ and there ought to be regard to statum and facultates. After that many variations in detail described with ultimate tendency to concentrate tax on visible resources of all kinds moveable or in-moveable but only local.

p. 97 he concludes that in 1795 it was finally decided that Stock in trade was to be rated but in practice it was not: the exact terms on which it was to be rated given p. 99. E.g. were drafted by the Poor law Board in 1840, when legal decisions compelled the enforcement of the law. This enforcement made an uproar, partly because⁴⁴¹ it worked out so grievously in detail: and in August of the same year a bill was passed cutting out stock in trade for 2 years. It has subsequently been renewed from year to year.^{cxxvii}

[dated 26.viii.96]⁴⁴²

Local taxation

Francis Ysidro Edgeworth⁴⁴³ writes on a postcard “I am going (in No II of E[conomic] J[ournal] articles⁴⁴⁴) to emphasize more than you do that tax of ground rents ought to be on unearned increments as Mill proposed, not on rents fixed before the tax”[.]

I reply on another hand that in my opinion:

No general proof is valid as to either ethical or expediency title of fixed rent charges. It is all a question of degree, and degrees vary.

No one can give a better title than his own, except in the case of a negotiable document or cash: and these exceptions are based on particular considerations not applicable generally to real property[.]

⁴⁴¹ Written as a symbol.

⁴⁴² Text written in black pen on large white folios of a notepad, numbered in blue pencil pages 187-88. In the margin of the first page is written: “See also p. 275 to which place this properly belongs”.

⁴⁴³ Abbreviated as “F.Y.E.”.

⁴⁴⁴ F.Y. Edgeworth, “The Incidence of Urban Rates”, *Economic Journal*, vol. 10(38): pp. 172-193.

Mill's treatment of unearned increment is self-destructive. I wish to be more radical than his profusions in some places, and far more conservative than his avowed aims in others.^{cxxviii}

[dated 5.7.00]⁴⁴⁵

1.2. Equity, equality and certainty

A. General Principles:

- a) Equity
- b) Economy of collection

(Aa) A benevolent strong autocrat might adjust burden of taxation to square of surplus above necessities. But under popular rule those, who paid no taxes would have much direct interest in lavish expenditure, and scarcely any in economical use of resources:

Therefore⁴⁴⁶ all classes, except paupers, should bear some part of burden of taxation.

(Ab) Subject to claims of equity, taxation should yield net return as near as possible to gross return, after allowing for inevitable (α) costs of collection (β) interferences with freedom of work expenditure.

The net yield of tax (or a core?) is ordinary reckoned as gross yield - direct cost of - collection. But this direct cost is seldom the whole, sometimes not nearly the whole of its total cost; for a great part of that is too of consumers surplus by those who don't consume the thing in consequence of the tax. This is of course true of every rise in prices, however caused. The taxes which are most evaded are those which are most costly. Income tax takes account of them.

On the other hand they get a larger consumer surplus on other things: but the aggregate Consumer's Surplus⁴⁴⁷ is lowered. If this is said at all it must be fully developed in a special Note.^{cxxix}

[dated 19.3.23]⁴⁴⁸

⁴⁴⁵ Text written in black pen on a white folio.

⁴⁴⁶ Written as a symbol.

⁴⁴⁷ Written "C.S."

⁴⁴⁸ Text written in black and red pen on a large white folio. Much amended. At the top of the page is written: "Book II, Public Revenues".

H.S.⁴⁴⁹ lessons as to taxation

- 1) Equality: i.e. require equality of sacrifice, and in proportion to ability or in proportion to the services rendered[
 - 2) certainty: no room for dishonesty of collecting officials [and so forth]⁴⁵⁰: also nothing unexpected. Old tax is no tax. Shifting backwards and forwards of a tax on bricks or photographs.
 - 3) convenience of collection: of course, but this is a matter of detail; and some taxes which are good in this respect, e.g. taxes on ordinary commodities are bad in others. Should one make people sensible of taxes or not.
 - 4) keep as little out of pockets of people as possible economic of collection
- No Diff taxes

No tax nearly faultless

Income Tax: wage receivers can't be assessed easily. People who save are taxed twice

Income no very good measure of ability to pay

Income returns much falsified in certain directions

Expenditure excellent in general principle but impracticable

Particular commodities. On a few only. If tax is intense very great loss of consumers rent; apt to fall unequally on those who specially consume those goods. And therefore justifiable only in case of moral sanction: e.g. alcohol but Qe Tobacco

If on many commodities, cost of collection is immense

Anyway to consumer very great if only on imported goods and if on home produced also, excessive officers' interference is unbearable

If to avoid this taxation is at root, ie on raw materials, specially wasteful of adjustment of capital to its most effective uses.

If on commodities of rich only, come to little even if smuggling can be stopped

⁴⁴⁹ Herbert Spencer.

⁴⁵⁰ Written in abbreviation.

If on ordinary commodities, and specific, then most unjust; if ad valorem then difficult of collection and almost innate fraud

Nothing important omitted above except immoveable property

They are the best taxes generally but needed for local uses.

Tax on land

a reserved claim

The origin of property. The poor rate

Tax on improvements tends to discourage agriculture as tax on houses does building

Neither is necessarily to be condemned: but houses stand on a different footing from business premises and plant and therefore ⁴⁵¹ farming improvements.

Tax on houses best tax upon expenditure (might be graduated but there are difficulties)

Should be supplemented by tax on ground values to be spent on fresh air

(not tax on free shares. Building land should always escalate taxation by being in play ground[])

Tax on business premisses of industries which are necessary to locality raises their charges and falls on citizens at large

But if on manufactures for world market, drives them away; and pro tanto fall on owners of property

Questions of Quasi Rent.

This gives a clue through all perplexities.

But bear in mind space and time

⁴⁵¹ Written as a symbol.

Generally speaking onerous tax in one place falls first on tenants and landlords (if levied from them) but soon rolled backwards on to superior holders, except for long leases: and ultimately lower ground values of the town much. But such cases are rare
Remuneratory taxes are no taxes.

Immediate incidence of sudden new rate on business premisses tells hardly.

My plan is for that reason (i) to divide rates (ii) to have a normal rate applicable to premisses of about say £40, lower rates for small premisses of all kinds, higher rates graduated further the present inhabited house dues or houses alone

As to Government action in economic
No general rules: all questions turn on detail: balances of gain and loss

Bureaucracy buys best machines and experience, prospers

But soon aims at lessening work for officials who makes no show
And at increasing that which gives excuse for a larger and better paid staff.

They are also judges and judged

Their function should be to judge and therefore not to require inspectors

Inspection may be too costly^{cxxx}
[undated]⁴⁵²

A General certainty and publicity⁴⁵³

General Equity: not in proportion to income total or net or property or both together but to these in conjunction with the consideration that those who have the power of causing public expenditure to be (a) extravagant, should

⁴⁵² Text written in black pen on white folios, torn from notebook, numbered in blue pencil pages 133-43.

⁴⁵³ At the top of this page, written in red pen close to the title; not numbered, not dated written in black and red: “Taxes, This is to apply to all forms of Government, despotic and democratic” and in black pen: “For Ch I Introductory, Private rights in regard to:”

have some interest in keeping it (b) moderate. Those who are interested chiefly in b are likely to be more numerous, though less energetic than the a's. This is source of strength to democratic Government, when guided by fine and capable press

Diffusion of ye Burden

Conflicts of interest between “producers” and “consumers”: there are none when the terms are interpreted broadly: but conflicts between intensive interests of energetic groups of producers and extensive interests of quiescent consumers at large are frequent.⁴⁵⁴ But A a sudden innovation arouses suspicion: and B a cry that the people are being sacrificed to interested groups of politicians cannot now be stifled. If it cannot be met, it must conquer [.]

The advantage of publicity attaches to taxes on land and buildings and plank. They are incapable of being concealed and taxes on them can be assessed without vexatious official inspection. But they are not capable of bearing nearly the whole weight of national and local taxation. It is obvious that they are specially adapted for local taxation because: they are very much of the nature of a call on shareholders of a company for funds to enable it to conduct and improve its business. They cannot bear any great part of the burden of national [...] TO⁴⁵⁵

The owner who occupies his property [...] They reap nearly the whole of the benefits to which the outlay from the rates conduces. The benefit that any such rate payer derives from this expenditure is generally the larger the more extensive is the accommodation that he enjoys and he may reasonably be required to contribute in proportion. No doubt the tenant and owner share these benefits. The tenant pays generally for both. High rates tend to drive away tenants: but tenants are attracted by the amenities obtained by judicious and economical expenditure of the rates⁴⁵⁶.

Return of income liable to income tax may be safely used without check for local purposes in a country which has little direct contact with the outer world. But not as a rule have great advantages when very heavy they offer exceptional inducements to fraudulent evasion some of which cannot

⁴⁵⁴ In the margin of this paragraph is written: “See bundle α ” and “This is most prominent in regard to duties on imports”.

⁴⁵⁵ Sentence incomplete.

⁴⁵⁶ The text of this paragraph is written on the reverse of the page, indicated by Marshall with “TO” (meaning “Turn over”).

easily be checked. ⁴⁵⁷The basis in many cases especially must consist (in many cases) of statements by individuals of their private affairs. And though checks of those statements have been developed with great energy and ability there is much that cannot be tested: and fraudulent understatements are supposed still to be numerous, the tax is able now to yield a much larger income to the State than was formerly thought possible. But yet there are understatements.

A second difficulty lies in the fact that a great part of the votes by which H[ouse] of C[ommons] is elected are given by people who do not commonly keep accounts: and taxes on wages cannot be collected with any near approach to accuracy without the goodwill of those concerned.

As things are, the frugal artisan who devotes most of his resources to the benefit of his family could be taxed nearly to the full on the basis of easily ascertained facts: but another with equal earnings, who spent much of income on selfish indulgences, would escape lightly. Therefore ⁴⁵⁸ tax alcohol and tobacco heavily. Keep the taxes on tea, sugar etc rather low. Britain is good in these matters.

B relations of local to national taxation

Main points 1

Taxes on real property have exceptional technical advantages for national revenue.

But they are the only important taxes which local Government can levy easily. No doubt local taxes on income could [be] levied with some ease in places in which nearly all income is derived from local sources; but the complex procedure needed to check returns from sources outside of the locality in which a person lives is expensive even when levied by a Central Government can [...] ⁴⁵⁹

It could not as a rule be done effectively by local authorities. The administration of British finance is simple and apparently efficient, because it is based on information which local authorities could not well be empowered to demand.

Therefore, it is best generally to confine local taxation to real property. Exceptional difficulties of every district may, as a last resort, be got by grants from Exchequer: under the sanction of the National Parliament[.] ^{cxxxii}

⁴⁵⁷ Added between the lines of this part in red pen: "*Those levied on income from stock exchange securities when levied at the source are not easily evaded*".

⁴⁵⁸ Written as a symbol.

⁴⁵⁹ Sentence incomplete.

[undated]⁴⁶⁰

As they are – general principle is “take off taxes from the poorer classes as far as is practicable without encouraging wastefulness in the public expenditure, which will come ever more and more under their control: and use public money freely in order to increase vigour rather than to diminish suffering. Take the least attractive course

Avoid taxes that impinge unduly though, in the narrow sense in which equity is merely an equitable working out of the existing institutions of property, it might be fairly maintained that *if shifting were absolute and rapid: and each sort of labour and saving were governed by rigid laws, no tax would long be inequitable. Its burden would be promptly distributed.*^{cxviii}

[dated 7.9.11; 5.1.12 and 18.1.12]⁴⁶¹

1.3. Effects on Consumption

Idle wealth owners and great wealth owners should be made to contribute largely to public income. Women are not to be excused quâ women: though a large number of them will be exempted on account of family and household duties.

But: A is the mistress of a large household; and pleads that her work is sufficient for her. If the State says: “No, you must do some constructive work”; then she may write for society papers and hire an expensive housekeeper to do much of her household work. It will therefore be a difficult principle to enforce by authority: at all events till public opinion is strong enough to do most of the enforcement unaided by authority.^{cxviii}

[dated 7.7.19]⁴⁶²

⁴⁶⁰ Text written mainly in black pen, with some additions in red pen, on large blue folios. The text is much amended, and although it is not dated, the handwriting is clearly of an old Marshall.

⁴⁶¹ Text written in black pen partly on a large white folio and partly on a piece of blue folio, cut out and pasted on the white folio. The part written on the blue folio (dated 7.9.11) is shown in italics here. In the margin of the text is added “Make large use of answer to Local Taxation Committee No IV”); the text written on the white folio (dated 5.1.12) is shown here in plain type. At the top of the white folio is added in red pen “For FB H Principles of Taxation, 18.1.12”.

⁴⁶² Text written in red pen on a blue folio.

Production as dependent on Consumption

It does depend on consumption: but if distributed by ordinary Substitution, the two will accommodate themselves to one another. If however the consumption of straw hats goes out of fashion, straw hat makers will suffer. If those who have consuming power turn to cinematographs rather than to oranges, raisins, milk and house rooms, there will be a diversion of employment from manual to highly skilled labour: and therefore employment of the Proletariat will diminish.

Similarly if coal owners get more and miners get less of the selling price of coal, there is likely to be an increased demand for expensive opera stalls, for expensive pictures and so on; and less demand for minus consumption, which – bar cinematographs & c. – is chiefly of Proletariat made products.

This affords a very small additional reason for taxing the rich for the public good.

But taxing Champagne, if it caused the rich to go to Operas more and drink (imported) champagne less, would diminish the demand for Proletariat labour!

Giving a bounty to foreign pictures, would injure British painters and divert some of their earnings to the Proletariat who make goods for exportation!^{cxxxiv}
[dated 23.1.12]⁴⁶³

Objection to heavy taxes on goods is that the[y] shrink consumption: and therefore⁴⁶⁴ need to be continually [...]supplemented by other heavy taxes. This points of course to a heavy income tax in spite of the inducements which it offers to evasions, especially by trading concerns who are in league with foreign businesses.

On the whole, there is a general argument in favour of heavy income tax, in spite of the fact that it induces fraudulent evasions. The alternative of heavy borrowing which means shifting part of the burden of this generation on the shoulders of its followers. Such a course has great inducements: and perhaps it was justified during the great Napoleonic war. But it is an indirect way of impoverishing the nation, and causing the generation, which practices it, to deserve ill of the country to which its own wellbeing is owed. One generation does not pay its debt to the past, if it leaves a national net property but little increased; unless indeed it has

⁴⁶³ Text written in black pen on white folios, numbered pages 1-3.

⁴⁶⁴ Written as a symbol.

worked hard, lived sparely and devoted much of its high consumption to laying the foundations of the future prosperity: that was perhaps partly true of E[ngland]’s wars against Napoleon.^{cxxxv}
*[undated]*⁴⁶⁶

1.4. Evasion of heavy taxes

Human nature and the evasion of heavy taxes.

The permanent and the transitional in man’s life and work⁴⁶⁷

- (A) Time the devourer of men and things,
- (B) Time the devourer of things and men

(A) Individual men come and go, while the greater part of institutions and of the national basis of human life remains unchanged.

Houses, roads, and other means of communication remain for the greater part as they were and so does much machinery. While

(B) the fundamentals of human nature are the same now as they were in civilized countries in the times of Moses and Aaron and probably much earlier. But meanwhile the economic basis of social inequalities has been weakened by the spread of intelligence. No doubt science is continually developing new routes on which man can attain a greater command over nature with comparatively small effort: and the technical future of the world would not be nearly so much prejudiced by prohibitive taxes on large fortunes now, as it would have been a hundred years ago. And, where account is taken of the fact that large fortunes are compelled to contribute on a progressive scale to public resources (chiefly through death duties and income tax), it may perhaps be concluded that general wellbeing would not be much promoted by further taxing them very heavily. This assumes the taxes to be effective: but a small change in human nature would enable death duties to largely evaded. E.g. a man 70 years old has a property of £ 100,000. He retains £ 20,000 as loose cash to meet emergencies: buys an annuity of £ 3000 a year for £ 40,000 gives away another £ 40,000 and escapes much income tax and death duty. The 40,000 which he gives away will not yield much tax if it is divided among several persons.^{cxxxvi}

⁴⁶⁶ Text written in black pen on a blue folio and its reverse. In the margin of the page is added: “Economic duty of each generation to its successors” and a large “1” in black pen.

⁴⁶⁷ A large asterisk in red pen (*) was drawn near the title.

[undated]⁴⁶⁸

2. Varieties of Taxes

A tax on coinage is not advanced by any one provided the coins do their work.

The case is not parallel to that of a tax on a cycle in use levied on entering a country and returned on having it.

That would be a true analogy if the tax were on gold which was to be used for some purposes other than (i) currency and perhaps (ii) social distinction. A tax on diamonds as a source of social distinction might fall on no one possibly. But a tax on black diamonds used for drilling would be advanced by the first payer and the interest on it would be lost by him until he sold the diamonds.

On the other hand an interest is always lost on value held in the form of money and there is no more loss on 20s worth of silver than on a sovereign[.]

The analogy to be sought therefore is that of a ticket for admission to a concert, of which three fourths is taken at the first door. But the remainder does the work as well as the whole. That is the case with regard to a seignorage or a brassage, so long as there is no question as to the stock of money being not too great to do its work at full nominal value.

But that is the difficulty. Optimists say it can be done by inconvertible paper: and all goes well as long as it does. But at last it does not.

Similar objections on a smaller scale apply to both seignorage and brassage: though the arguments for and against the two are somewhat different.

A tax on all mines, in so far as it falls on gold used for currency, would in the long run not affect the mine owners appreciably.

But it would injure debtors. Ultimately it would add to the real wealth of the world.

But as it did not affect gold already in existence, it would not – even so far as it affected new gold used for currency – fall partly on mine owners. And if confined to the mines of any one small gold field, it would remain in their shoulders almost permanently.

⁴⁶⁸ Text written in black pen on blue folios, numbered pages 1-3. Above the last part of the text is written in red pen: “Avoid figures make this argument general”.

If levied by general consent on all mines not yet taken up, it would be an unmixed benefit. Owners of existing mines would gain a part of this, which should be taken from them by a low tax on their mines[.]^{cxxxvii}
[dated 3.2.06]⁴⁶⁹

Taxes on Luxury

If you tax income from capital higher than from labour and ascending, (which requires you to ascertain what income each person has), you do tax luxury.

Given A and B each spend £ 100,000 a year it is hard to say that either expenditure is more “luxurious” than that of the other, unless one can plead that he (a) pioneers or helps to pioneer in new production or art (but £1000 on flowers at a big party does that); or throws his park open.

You can't tax (a) cigars or wine or (b) lace or carpets or furniture of a luxurious kind ad valorem (Rothschild[']s £6300 table⁴⁷⁰) or diamonds & c.: except for (b) see next paper and for (a) by making importers declare value and putting a Government stamp on in accordance: so that if any one were asking 80s for wine which bore a stamp of date a few years back as extend at 40s, the customer would suspect and the excise on custom's officer be on the lock out. (But a large margin must be allowed, for wines and cigars often turn out worth less than hoped)[.]^{cxxxviii}

[dated 10.5.06]⁴⁷¹

Taxes on luxury

Levy a tax of 1% on the sworn value of all precious stones, lace, pictures & c. in private ownership, the tax to commence at £50 value. The results to be published in the London Gazette; and the relevant parts thereof to be distributed gratis to local journals, or even advertised in them.

Levy income tax on land on the assumption that the income from it is never less than 3% on capital value, unless it be open to the public for at least ten months in the year, including June and July; when a lower

⁴⁶⁹ Text written in black pen on white folios, not numbered.

⁴⁷⁰ At the auction of the Duke of Hamilton's treasures at Christie's in 1882, Rothschild paid £6,300 for a Riesener writing desk made for Marie Antoinette; the purchase caused a great public sensation.

⁴⁷¹ Text written in black pen on white folios, numbered pages 1-2. At the top of the first page two large asterisks are drawn, one in blue pencil, the other in red pen. Above the text on the second page a very large “Qe” (meaning “quaere” or “I question whether”) is written in blue pencil and also an asterisk drawn in blue pencil.

minimum say 1 ½ % or even less may be adopted. In case there be a question as to its value, put it up to auctions at declared value + 10% above valuation, the owner retains it i.e. if no one will pay more than 10%[.]^{cxxxix}
*[dated 3.10.05]*⁴⁷²

Taxes on luxuries

Taxation from 1 to 5% of value; and fusillade the taxes

High grade china ware: probably an optical lens could be found

Diamonds: if you could catch them

Conservatories, professional or private

(but however you measure them you are sure to make some people fit their arrangements to the tax, not to their wants simply) ^{exl}

*[dated 11.5.07]*⁴⁷³

Taxes on property and income

The possession of land yields prestige and various gratifications other than those derived from the income in money and personal comfort derived from it.⁴⁷⁴

And the same is true, though in a less degree of possession of houses: but as land and building are subject to local rates their consideration need not be pressed.⁴⁷⁵

The rise in the value of land (and of buildings in so far as that results from rise in value of sites) is a fit subject for taxation: but it has great technical difficulties.^{476 cqli}

*[undated]*⁴⁷⁷

⁴⁷² Text written in black pen on a white folio. At the top of the page an asterisk is drawn in blue pencil.

⁴⁷³ Text written in black pen on a white folio.

⁴⁷⁴ A large "1" written above this text.

⁴⁷⁵ A large "3" written above this text.

⁴⁷⁶ A large "2" written above this text.

⁴⁷⁷ Text written in black pen on a large white folio. At the end of the page is added with a different black pen: "This is to be put lightly for fear of technical inaccuracies in matters of detail". At the top of the page is written "For §2".

“Taxes on Houses”

If bye laws strict, and all houses (buildings) of legal value per cubic foot, and built up to equal limit, the tax on land would be convertible with a tax on houses (buildings), and in so far approve a tax on expenditure.

For equity, the tax if collected from tenant without legal power of deduction, should be lower on land used for business premises than for houses generally; or if not some provision should be made against a very rapid rise in rates, and taxes[.]

But throughout it is essential to know whether the tax or rate is “beneficial”: and if so when the benefit will first accrue in full force. Such of them as will only accrue after a long time part of the burden of them should go on to ground rents[.]

Fresh air tax is that which most contributes to our doing our duty to coming generations. Those who get private gains from doing public harm are to supply the means of undoing it. Tax on land not yet used is bad. Tax it when it is used. The seller will be forced to deduct the tax from his price. No money is better spent than that in laying out streets well. If the man who does that is taxed fully, while the owner of neighbouring house property is taxed only on the addition made to the value of his land, but not that of his houses, the first man makes a bad bargain and bye laws will need to be strained if equity is to be got [.]

Tax on land value sole would hurry up bad building; and would hardly be adequate. Supposing land worth £1000 capital value: an annual tax of £ 100 is put on it, i.e. its value becomes - £2500 but yet the tax can be levied.

It would be prohibitory on the use of good land for cheap dwellings.

But if bye laws really enforced $\frac{1}{2}$ st angle for sky, number⁴⁷⁸ of cubic feet above ground per acre would be fixed. ^{cxlii}

[undated]⁴⁷⁹

Principles of taxation

England’s strong point in her multitude of small homes is in danger from the growth of Flats and Residentiary Hotels. Consequently, while house taxation should be graduated: and though Residentiary building which

⁴⁷⁸ Written “no”.

⁴⁷⁹ Text written in black pen on very small white folios. The title “Taxes on houses” is written above the text on the first page. At the end, on the reverse of the last page, is written in normal pencil: “I think these were notes for the Conference in 1907”. In 1907 Marshall had delivered an address before the Royal Economic Society that was then published in the *Economic Journal* with the title “The Social Possibilities of Economic Chivalry”.

housed say 50 families, and had a rental value of \$5000 a year should not be taxed acc[ording] to the scale for single houses, yet it should be taxed much more highly than an aggregate of independent dwellings which had severally equal rental values with the Flats & c. Deductions would need to be made for services performed collectively: e.g. porters, window cleaners and perhaps housemaids and cooks: but these deductions should not be at full value: perhaps half value might be reasonable. ^{cxliii}
*[dated 7.7.09]*⁴⁸⁰

Urban Land

The doctrine of ancient lights ⁴⁸¹ has much to do with smallness of accommodation supplied by the City of London. It keeps down the rents of each individual property which it specially affects. Whether it keeps down aggregate rents or not is questionable nor it is clear whether public interests would be subserved by a less rigid legal enforcement of these rights, unless a good public regulation could be substituted for it. In the City more than elsewhere wholesale rebuilding schemes are difficult, on account of large capitals required. Otherwise they are best remedy for obstructive rights to light. ^{cxliv}
*[undated]*⁴⁸²

Taxation of site values, division of rates

It should of course not be introduced in full at once: but that would in any case be impossible. All is governed by preliminary remark, festina lente: don't try too much in any one generation.

I would wish a resolution passed as soon as possible indicating that changes in this direction were probable.

Then I would give the councils power to move in that direction up to a certain extent within the next say 5 years, a certain distance further within another 5 and to complete within another ten. As regards the fresh air rate however a minimum rate of progress of that should also be compulsory. ^{cxlv}
*[dated 2.ii.98]*⁴⁸³

⁴⁸⁰ Text written in black pen on a white folio. At the top of the page is written "Book IV". A large asterisk in blue pencil was drawn above the text.

⁴⁸¹ The doctrine according to which the landowner has the right of easement to the unobstructed passage of light and air from adjoining land.

⁴⁸² Text written in red pen on a white folio, numbered in black page "XV".

⁴⁸³ Text written in black pen on a white folio, numbered "IX.X".

Site Rent, taxes on for fresh air & c.

It is not to be denied that a tax on site rent will discourage local manufactures, & c. any more than a tax on land agricultural value as soon as they emerge in a new country (or which is the same thing the substitution of long leases for sales at low prices) will discourage immigration per se. All depends on what is done with the taxes. It seems certain that if spent on fresh air such taxes will not diminish the industrial energies of the country; will not fall on the public as a burden. But if levied on one place and spent in providing fresh air elsewhere, the owner of that place may be worse off: though if the tax is well and justly levied and spent, it will only take from him what he would have otherwise got by exploiting the industrial strength of the nation, and thus being “parasitic” in the evil sense of the word, if he had been allowed to spoil air in one place, and not return its equivalent.^{exlvi}

[undated]⁴⁸⁴

Land agricultural. Taxes on

English landed interest complain of taxes: but their chief competition are US Farmers who are terribly taxed (though it is true they have got their title deeds too cheap)

Tax of agricultural land: ground value falls on landlord, improvement value at first largely on the particular tenant if unexpectedly large, but afterwards in the main on the consumer, if it affects all lands from which supplies come: otherwise it (i) checks improvements (ii) falls on landlord. This assumes the tax to be differential to a particular investment of capital. A tax on income from improvement, without a tax on farmer profits, discourages improvements.

“It will be observed that in most cases the farmer stands rather in the position of the builder than in that of the occupier of the house, the occupier of the house corresponding not to the farmer, but to the consumer of agricultural produce”; because farmer and builder make their calculations with a view to a profit (Goschen’s draft report on local taxation p. 165⁴⁸⁵[...]). This is true as regards permanent improvements made by the farmer under a lease. But really his case resembles more nearly that of a shopkeeper or even manufacturer who gets in much semi-movable capital.^{exlvii}

⁴⁸⁴ Text written in black pen on a white folio. At the bottom of the page is written “See a pencil note Principles IV pp. 501-2”.

⁴⁸⁵ The book in the Marshall Library Archive. Published in 1872.

[undated]⁴⁸⁶

Taxes on saving

In so far as rates fall on the income derived from investments, improvement of land and not on other forms of investment and are “onerous” they are differential and bad. But judged by this test, land is in fact rather under than over taxed relatively to (i) houses (ii) business premises and (iii) (especially) railways: i.e. to nearly all investments at home.

But no doubt a consequence of an unexpected increase of onerous rates, (as in any other taxes) in England does put those who have invested their capital abroad (not lent it) at an unexpected (and as some would say unfair) advantage relatively to those who have invested it at home. But of course similar appeals may be made on behalf of those who have invested abroad, in case an unexpected increase of taxation has occurred there.

This does not apply to debentures. They are on an equal footing all round, (unless they are in terms of foreign currency which has altered relatively to the home currency. But as that could not result from taxation, it is beside the present issue).^{cxlviii}

[dated 10.2.04]⁴⁸⁷

Income tax

Anyone may deduct premiums on his life up to 1/6 income. But suppose a Company charges twice as high Premia as are necessary, and then returns part in cost bonuses?

This notion raised by a complex and trivial issue discussed in Today’s Econ[omist]^{488 cxlix}

[dated 21.2.03]⁴⁸⁹

⁴⁸⁶ Text written in black pen on a white folio, torn from a notebook, numbered in blue pencil page “183”. At the bottom of the text is added: “As to diffusion of burdens benefits and interests in rural communities See cutting IV 57”.

⁴⁸⁷ Text written in black pen on white folios. At the beginning the following part is deleted: “All taxes on property are in effect taxes on saving, since land has mostly changed hands in recent times.”

⁴⁸⁸ “Life Premiums and Income-Tax”, *The Economist*, 21 February 1903, Issue 3104.

⁴⁸⁹ Text written in black pen on a white folio.

[...] ⁴⁹⁰

But other things are not equal: and this principle cannot be carried far into practice. So long however as taxes are levied on income more than on expenditure, it would be equitable to exempt partially from taxation accumulations of capital made out of income for a few years after they have been made. In this direction no organic change seems practicable; but perhaps some fragmentary reforms might be made, with good effect on the whole, especially as regards taxes local and imperial on unmovable property. ^{ci}

[undated] ⁴⁹¹

Influences of modes of taxation on wages

A and B are neighbouring cities, between which there is a perfectly free movement of population, and which are alike in all respects except that in the one A the municipal expenses are covered mainly by rates on the English plan, and in the other B mainly by octroi ⁴⁹² duties. (There is however no difference between them as regards the nature of the municipal expenditure, or the efficiency and economy of its administration). How will money wages differ in the two cities on the suppositions that octroi duties are levied (1) mainly on the necessities of life (2) on all articles of consumption with a slight graduation against the dearer sorts?

(1) wages in A higher nominally (2) wages equal. ^{cli}
[dated 9.8.05] ⁴⁹³

Taxes ad valorem

US war Revenue Tax 1916 ⁴⁹⁴ (see Nation[al] Bank of Commerce's reprint p. 36) ⁴⁹⁵ levies taxes on cigars adjusted to the retail price at which they are to be sold, and provides that the "box or retainer" in which they are sold

⁴⁹⁰ Sentence incomplete: "he saves is likely to pay taxes again either in his own hands or those of his heirs".

⁴⁹¹ Text written in black pen on a white folio, numbered page "45".

⁴⁹² Term from the French meaning local taxes.

⁴⁹³ Text written in black pen on a white folio.

⁴⁹⁴ According to the Revenue Tax Act of 1916, taxes were largely greatly increased in the US.

⁴⁹⁵ See on this The War Tax Law, approved October 3 1917, Guaranty Trust Company of New York.

shall have a label indicating the particular “clause of the act” under which they have been “tax-paid”

Well done!^{clii}

[dated 11.11.17]⁴⁹⁶

3 Burden of Taxation

3.1. General Principles of the diffusion of the burden of taxes

General Principles of the diffusion of the burden of taxes

1. Onerous and beneficial Taxes

The frontier taxes of early times were often occasioned, or at all events excused by the necessity of large special expenditure for the protection of foreign trade: and the same may be said of “lighting dues” levied on shipping in modern times. Such taxes were in part at least “beneficiary” and not “onerous”. In dealing with specific taxes these terms come into frequent use; and it will be well to say something about them.

A tax is “onerous” to any class of persons, if it directly or indirectly takes from them any income or property, which they would otherwise [have] possessed⁴⁹⁷; and is expended in such a way as not to give them an equivalent return. On the other hand if a special tax, levied on wet land, is spent on a drainage system which added much more than it costs to the value of the land, then it is not “onerous” but beneficial to those owners.

Similarly a tax levied on the whole people and spent on education, sanitation, & c. in such a way as to confer on them benefits in the health and energy and earning power which are more than equivalent to the charge levied on them is “beneficial”. In so far as it is levied mainly on the well-to-do and spent mainly in the service of the working classes, it is onerous to the well to do in the first instance: though it may be in the long run beneficial even to them, if it greatly increases the supply of efficient labour; while it makes the country stronger against invasion, and more abounding in the amenities of life. But it is onerous to all if it is spent on an abortive Government invasion; or if it is an incident in a chauvinistic outburst, which rouses enmity abroad, and thus leaves the country more liable to the calamities of war than she would have been under a strong and self-restrained statesmanship[.]

⁴⁹⁶ Text written in black pen on a white folio. A large asterisk is added close to the title.

⁴⁹⁷ Written thus by Marshall.

The contrast between onerous and beneficial taxation is most conspicuous in municipal politics; and illustrations taken from it are of good guidance in the larger problem of national finance. If misfortune or mismanagement caused the rates of a town to rise greatly, while there was no corresponding increase in the attractions which the town offered to industries in general; that is if there were a great increase in those rates which were generally onerous, its population would grow slowly and might even shrink. Those persons who for any reason could not leave the town would tend to avoid industries, on which the rates pressed with exceptionally heavy weight; and to drift into those, on which the rates pressed lightly. Conversely taxes, so spent as to add to the advantage of living in a town more than the equivalent of their cost, would develop its industries generally: though, if their proceeds were devoted to improving roads, or any other purpose which was of great importance to some industries and of but little to others, they would cost unevenly. If there were a scarcity of available building ground in the town, those industries which gained very little on the balance from the new taxes and the benefits conferred by them, might actually decline, making way for those which stood to gain more by the change[.]

An increase of onerous taxes will tend to drive the industrial population out of a country; and good finance will tend to attract industries to it. But these tendencies are weak. The rates of growth of population of neighbouring countries do not differ nearly as widely as do those of neighbouring towns or cities in the same country: and such differences as there exist, are due, save in a very few cases, to broader and deeper causes than differences in the pressure of taxation. In the main therefore it is true that an increase in the onerous taxes, which press almost equally on all the industries of a country, has but little influence in checking the growth of any of her industries. The taxes will cause the life of all her people to abound less in material comfort than it otherwise would: and they may so far lower the physical wellbeing of the working classes as to impair their efficiency, and their tax paying power. But if the country is exporting say textile goods, and importing iron and leather goods, then taxes however onerous, which press equally on all these three industries will not disturb the course of her trade: they will not give foreign iron and leather goods increased facilities for underselling her own iron and leather goods. For those increased imports would generally be obtained only in exchange for increased exports of textile goods: and textile goods would by hypothesis be under equal charges to the tax gathered with the home produced iron and leather goods. (The word "generally" is introduced here to cover the case in which the country's export trade is hindered by some changes

which happen to coincide with the increase of taxation: such for instance as a collapse of credit in some of her chief markets, or an improvement in the condition of some of her foreign loans and other instruments: the remittance of the customary interest and profits would not affect this argument. Onerous taxation might of course drive some of her capital abroad: but that would involve an increase of her exports relatively to her imports and would therefore fortify for the time her own iron and leather industries against their foreign competitors).

So much for a country's onerous taxes. But, with the exception of that caused by the progress of armaments, the expenditure of modern western Governments is devoted in a great and rapidly increasing degree to promoting the wellbeing of the people, and to checking that tendency to physical deterioration which was caused by the growing density of industrial populations, before their dangers had been understood, and while the public revenue was still made subservient to the claims of the rich rather than to the vitality of the masses of the population. In so far as a country's taxes are "beneficial", they tend to increase and strengthen her industries. But in so far as their benefits are distributed equally over all industries, they do not cause any of them to undersell to foreign competitors, or to be undersold by them.

It is altogether different when taxes, however beneficial ultimately to the population as a whole, press with unequal weight on particular industries. Taxes on commodities whether domestic or levied at the frontier, are almost inevitably uneven in their pressure. But the direction of their pressure is not always obvious at first sight.

Some of them press most heavily at the point of their first impact: others glide off and distribute most of their weight on consumers and producers whose interests are connected more or less closely with the point of impact.

2. General tendencies towards the shifting of the burden of taxes "forwards" and "backwards" on to various classes of consumers and producers.

The shifting of the burden of any particular tax forwards and backwards from its point of first impact has been discussed, implicitly at least, from very early times; and it has a prominent place in the modern economic and political literature. The present chapter deals in the first instance with broad principles of general application, illustrated by typical taxes levied within a country on things that do not enter to any considerable extent into her foreign trade; then proceeds to indicate the developments of those principles which are required when some of those on to whom parts of the burden of the tax may be shifted, whether consumers or producers, reside

in countries other than those in which the tax is levied.⁴⁹⁸

The problem of the shifting and incidence of taxation is large and abounds in complex details: but that part of it with which we are specially concerned here is tolerably simple, and the main principles which govern the whole can be set out in a few lines. They are:

Occasionally a tax on a commodity is collected from, or impinges on, the ultimate consumer. Take for instance that part of an onerous tax levied on the ownership of motor cars which bears on those which are used only for private gratification, and not incidentally to any business or profession. If heavy and imposed suddenly, it checks new purchases so much as to press heavily on the makers of motor cars and their own employees and on the makers of all things used by them, together with their employees. For the time motor cars are sold more cheaply than if no tax had been levied; and thus consumers shift part of the burden of the tax backwards: there is no forwards to which they can push it. As a consequence however labour and capital will drift out of the industry and those allied with it; or at all events will drift into it less part than they otherwise would have done, until supply and demand are again in equilibrium, and earnings and profits are normal. Meanwhile the check to the growth of the industries will have prevented them from obtaining as great an extension of the economies of production on a large scale as would have been obtained otherwise. Therefore in the long run consumers will pay rather more for such cars than they otherwise would, and pay the whole tax in addition. If however the tax is spent on improving the roads so as to increase both the life of motor tyres and the amenities of using motor cars, the repressive action on consumption may be checked and even inverted. In the last case, economies of production on a large scale will grow fast: consumers will pay less for new cars, besides saving the tax in diminished wear and tear, and getting more enjoyment from the use of their cars[.]

Such part of the tax as falls on motor wagons used for business purposes, will have results similar in most respects. But the ultimate burden of an onerous tax, and the ultimate net benefit of a beneficial tax will accrue in the main to the consumer of the services rendered by the wagons; while in the interim a very considerable part will accrue to their owners. The personal comfort caused by the improved condition of the roads would of course go in varying degrees to those who used the roads in different ways.

If the tax were collected, as is the general rule with taxes on commodities,

⁴⁹⁸ Text deleted at this point: "The application of these developed principles will be the chief concern of the remainder division B of Book III".

on the cars and wagons themselves while in the hands of the maker or the wholesale dealer, the users of pleasure cars and the consumers of the services of motor wagons would ultimately be affected very much as in the previous case; they would bear most of any net burden and gain most any net benefit. But nearly all of those who were directly or indirectly associated with the motor car and wagon industry would reap some share for a considerable time. The amounts of these several shares, the speeds with which they would be transferred to the ultimate consumers, would depend on the elasticity of demand of the consumers; on the stock of cars and wagons in hand; on the amount permanence and adaptability of the plant and other durable appliances for production invested in the several industries; on the mobility and versatility of employers and of employees in them; and on the strategic ability and organization of the various groups of sectional interests concerned. ^{cliii}

[undated]⁴⁹⁹

VI. b. Rates are commonly divided into those which are onerous and those which are also ⁵⁰⁰ beneficial. The former are devoted mainly to public purposes; the latter ⁵⁰¹ tend to make the locality ⁵⁰² on which they impinge.....⁵⁰³ There are some rates which do not seem to fall clearly into either class, and therein no near agreement as to the right line of division between them. But leaving that, it is clear that when rates are so expended as to make a place permanently more eligible for residence and trade, the owners can obtain a permanently higher rent for building of a given cost of [...]^{cliv}

[undated]⁵⁰⁴

⁴⁹⁹ Text written in black pen on large white folios, numbered in blue pencil pages 1-9. In the margin of the first page is written in red pen: "Bits from this to be got from II?". At the top of the first page before the title is written "Chapter XIV".

⁵⁰⁰ Word added in red pen.

⁵⁰¹ Text deleted at this point: "do not directly raise the value of the properties".

⁵⁰² Words added in red pen.

⁵⁰³ Sentence incomplete.

⁵⁰⁴ Text written in black pen, with some additions in red pen, on a white folio. In the margin of the last part is written "130" and "60".

3.2. Diffusion of the burden of a tax

5. The stocks of specialized skill and plant belonging to any industry can seldom be greatly changed in a short time: and therefore the diffusion of the burden of a tax on almost every industry presents for a short time features somewhat resembling those which a tax on agriculture derives from the fixity of the stock of land. General applications of this principle to the incidence of octroi or other local frontier taxes and of taxes at national frontier.

[...] was easily practicable. But such experiments are opposed by central authority, by the difficulty and cost of collecting such a tax and by other hindrances: and they need not be discussed further.

When we pass from local taxes on the production or entrance of particular commodities to corresponding national taxes, the whole character of the problem is changed by the absence of perfect ease of migration between one country and another. This operates in two ways.

If special local taxes render one district of a country less attractive to an industry than another, the same people – employers and employed – who worked in it in the one district generally can and do move in great numbers to the other. But when similar⁵⁰⁵ pressure is put upon an industry to move from one country to another, the change is seldom effected chiefly by the migration of employers and employed belonging to the industry from the one country to the other: as a rule it must wait till an adequate addition has been made by internal growth to the ranks of the industry in the favoured country, while those in the other decline.

And secondly, the proportion of the residents in one country, while drawing their resources from another, is very small save in a few exceptional and not very important cases. And therefore though it is true that variations in the extent of absenteeism may require corrections in the general statement that an increase of imports of goods and services into a country has to be paid for by an equivalent increase of exports of goods and services, unless there is some concurrent change in her credit relations with other countries: yet the corrections to be made on this head are small: and in the main it is true that imports and exports broadly reckoned balance one another fairly well in the long run. But no approach to such a statement is valid in regard to the imports and exports of each district of a great country: the exports of Lancashire greatly exceed her imports: the imports of Kent greatly exceed her exports; while residentiary districts such as Bournemouth and Torquay have large imports and scarcely any

⁵⁰⁵ Repeated on the typewritten page: “But, when similar”.

exports. It is therefore not necessary to take account of the influence which a tax on the imports into a particular district of a country may exert on the local industries which send many of their products out to other districts. But it is of vital importance, when considering the effect which a country's import taxes may exert in developing certain of her industries, to reflect that any curtailment of her imports must cause the foreign sales of her export industries to be less than they otherwise would; except in so far as the tax would increase the exportation of her own capital in foreign loans; or increase the personal expenditure of her own people abroad, or diminish the personal expenditure of foreigners within her borders. None of these results are likely to be caused by such taxes; and indeed none of them are primâ facie desirable.

Of course each case has to be judged on its own merits. A new or backward country which has as yet but small command of high grade industries, which yield Increasing Return on a large scale, may reasonably make some sacrifice in order to develop selected nascent industries with great power of growth: and therefore "protective" duties on imports which press heavily against such industries are primâ facie not unreasonable: though there are strong reasons for doubting whether this particular method of aiding them is the best possible; and even whether it has ever worked on the whole for a country's good. That matter must stand over for the present.

But there is no such primâ facie case in regard to a country, the great bulk of whose exports consists of high-grade manufactures, and other things which are under the law of Increasing Return: taxes on her imports are certain to diminish the foreign vent of her high-grade goods; and there is no primâ facie case for the opinion that they will on the balance evoke such latent powers of economical production, as will compensate for the disturbance of industry caused by every new tax, and for the friction and restriction of viability caused by every frontier tax.

Here a caution may be entered in passing against a specious argument, which has had some vogue, to the effect that home products are heavily burdened by central and local taxation; and that in equity equal burdens should be placed on competitive imports. But unless the country increases her net exportation of capital every additional import (of goods or service) is balanced by an equal export. Exports pay their full share of all general taxation, central and local, onerous and beneficial as fully as do home products with which the imports compete. There is therefore nothing to be allowed under this head:

though if any special tax were levied on say motor cars, or printing, a special tax on imported motor cars or printing would be needed to redress the balance.

Finally a little may be said as to the severity with which, under special conditions, a frontier tax may strike some particular individuals whose interests appear at first sight to be rather far removed from it. An industry is often struck heavily by a check to the supply of something that is needed for another industry from which it buys or to which it sells. But the most frequent and important cases of the kind are to be found in the common interest which importers and exporters along the same route have in its service of shipping. If for instance the import taxes largely diminish a country's imports from a certain distant port, her heavier exports to it are likely to be handicapped by freights sufficiently heavy to pay the greater part of the cost of the double journey: even though some may be carried in vessels that are making a triangular route. This high charge may be of relatively little hurt to such exports as contain much value in small bulk: but delay is often specially harmful to them: and a check to the import trade from that port is likely to lessen the frequency of sailing to it from her shores.

Such incidents are generally on a rather small scale. But they are numerous: and, though much trade in staple commodities is composed of very large units, most other trade is made up of small units: it is the aggregate of innumerable small dealings of individuals. And therefore it is appropriate to pursue the shifting of the burden of frontier duties into further detail. The individual producers and merchants who are engaged in a particular branch of trade between two countries have built up organizations for that trade, with labour and expense as real as that of a builder who puts together bricks and mortar in such a form that they make a house. If the house is shaken down by an earthquake, the bricks and the mortar remain: but the organization is lost: and in like manner, if a tax directly or indirectly destroys some foreign connections of producers and merchants, a real burden is thrown on them. They may build up others elsewhere: but that will be a matter of new labour and new expenses. To escape that burden therefore they are likely to accept remuneration less than sufficient to have attracted them to that branch of trade. They have in fact special advantages for that trade which they would lose on turning their energies in another direction: that is, they are in the position of temporary monopolies relatively to that trade: and they will reduce their charges under the pressure direct or indirect of a tax rather than forego the benefit of their monopoly. From a rather different point of view this case resembles that temporary absorption of a part of the income derived from

the use of printing presses, which has just been noticed as resulting from an unexpected tax upon printing presses.^{clv}
*[undated]*⁵⁰⁶

3.3. *Shifting of burden*

Shifting of burden of taxation

General principles

(a) If a tax is levied on tenant or intermediate owner and paid in part by him, which does not benefit him proportionately it is onerous to him: if its main benefit goes to another class (e.g. poor relief) or is deferred till his interest in the property has mainly passed, then it is beneficial to that other class or to the superior holder.

(b) But when the benefits of expenditure of a rate accrue mainly to the occupier eg current expenditure on lighting, and his rent (tax included) is raised in proportion then it is neither onerous nor beneficial to any one but self-supporting, except in so far as it may be ineffectively or effectively administrated so as to bring in less real benefit than is the equivalent of its cost or more.

(c) That part of taxes which is so expended as to confer immediately on the occupier an equivalent benefit, is paid by him, but is no burden on him.

(d) The rest of the taxes have to be divided into those apportioned to ground and to building values. Those apportioned to ground values tend to settle first on the mediate and afterwards on the ultimate owner; but if meanwhile they have been so expended as to benefit the future occupants and to make a higher rent to be obtained for the property; they are no real burden on the owner (see below [...])

⁵⁰⁶ Text partly handwritten and partly typewritten. The handwritten part (here in italics) is in black pen on a blue and a white folio, numbered in blue pencil pages 24 and 27 (pages 25 and 26 missing); above the text written on the blue folio (the title) is added in black pen “develop this on white paper” and in red pen “in a § with short heading”; above the text on the white folio is drawn a long vertical line to delete it, then the line itself is deleted and added in the margin in normal pencil “K[ee]p”. The typewritten part is on large white folios, numbered pages 19-22 (typewritten) and then “28-31” in blue pencil.

(e) But the settlement of the remaining part, or the building value rates is very complex. If they are uniform all over the country both in amount and in mode of expenditure, then whether or not local in name they are imperial in fact; and tend to settle on the occupier[.]

(f) But Inhabited house duty has differential elements: eg it operates in favour of out servants and against domestic work of all kind. It is an indoor servant sum[.]

This is an evil but can't be helped (home dressmaking and laundries)

(g⁵⁰⁷) The lessor when taking his lease made as good a forecast as he could of coming rates and also of the coming rise in the annual value of his property during the lease. If there is an unexpected rise in the rates and also in the annual value, itself of course partly caused by the expenditure of the rates, then the burden on him is only the excess of the first over the second. And taking urban properties as a whole there seems good reason for thinking that this excess is less than nothing. The unexpected benefit which the urban lease holder has reaped from the expenditure of the rates and from general causes is probably on the average much greater than the unexpected burden of rates. For even while the tenant pays the rates without deduction rents have risen (this requires further analysis for changes in the purchasing power of money, and for changes in the requirements which the occupier makes on his landlord & c. But on the balance, the analysis will strengthen rather than weaken the position)[.]

(h) The ultimate owner of urban land gains, when his lease fall in, a large accretion of wealth at the expense of the public, the working classes contributing their full share to his gains.

General conclusions. As things are:

Rates of which current expenditure gives full value to occupier rest on him, as they should. They are no burden to any one [.]

Other rates when unexpectedly imposed are shared between occupier and mediate owner in proportions which vary greatly from place to place and occasion to occasion. The results are not the same generally for two neighbouring mediate owners, nor even for the same mediate owner in his

⁵⁰⁷ Written "h" in error.

relations with different occupations, at once however there set in forces tending to readjust the incidence. These are[:]

(i) the migration of occupiers from places in which mediate owners refuse to bear a considerable share of such rates, to others where there are no such rates or the mediate owners consent once to bear more of them. This is seldom a powerful force: for mediate owners are very quick of perception; and make concessions before migration due to such causes has gone far.

(ii) The stinting of the demand for houseroom which throws part of the burden on mediate owners, on the building trades and the local furniture trades. This force seldom acts quickly unless a period of commercial depression happens to have set people to go over their household accounts and face the necessity for economizing somewhere.

(iii) Shrinking of new building, which tends to throw back on the tenant nearly all that part of the new rates which corresponds to building value unless there happen to be eligible places free from such rates, in which case most of this part of the rates goes together with that which is apportioned to the ground value on to the owner of land who wants to let it on building leaser, and on the ultimate owner of old buildings when land and building fall in to him.

(iv) A shrinking of the building trade, which enables it to get normal profits again, and transfers on to the occupiers and ultimate owners the remainder of that part of these rates which corresponds to the building value. This process is however so slow as to require more time than generally elapses between changes of far greater force which affect the demand for building in any locality; and it therefore seldom comes to the surface so as to be detected by simple observation.

(v) Again from expenditure of rates and other forms of progress and improvement which - in recent years at all events - has more than compensated the mediate owners as a body for their unexpected outlays. The few exceptions are very small compared with the risks to which many other trades are subject; and indeed the building trades themselves from other causes.

(vi) From the same source a large gain at public expense by the owners of urban land.

The power of an occupier to escape the high rates of any given district by moving beyond it is practically limited much more than at first sight appears except in the case of those who can live in lightly rated suburbs

and enjoy many of the benefits which the neighbouring towns people pay their heavy rates in order to secure. Such cases present real difficulties and often injustices: which may need to be remedied in detail. Putting them aside, it is not commonly easy for a person to move from a highly rated area to a lowly rated one without giving up some general advantages and perhaps others which, though important for anyone, are important for him. If rates heavy in A and its neighbourhood then those who for personal reasons don't want to be far from A will pay part[.]
 If heavy in A and all other places suitable for a certain class of trade then those who want to pursue that trade will pay part[.]^{clvi}
 [dated 10.8.97]⁵⁰⁸

4. The Ultimate Incidence of Taxes

4.1. *The actual incidence of taxes as distinguished from their primary apparent incidence.*⁵⁰⁹

*The ultimate incidence of taxes*⁵¹⁰

When a special tax is levied for a particular purpose, and the case is not one for any interference by public authority with existing rights of ownership – as, for instance, where an arterial system of land drainage is created – the owners of the properties to be benefited may fitly be assessed on the “joint stock principle”, according to which calls are made from shareholders in proportion to their stake in the common venture. Such taxes are strictly “remunerative” and stand in contrast to those “onerous” taxes which supply the means of discharging public duties, of paying interest on the national debt, of supporting the general expenses of government, &c.

Onerous taxes, Imperial and Local, must be treated as a whole. Almost every onerous tax taken by itself presses with undue weight on some class or other; but this is of no moment if the inequalities of each are compensated by those of others, and variations in the several parts

⁵⁰⁸ Text written mainly in red pen, with some additions in black pen, on white folios.

⁵⁰⁹ Title and footnote written on a blue folio pasted over the first page of the printed text. Added in red pen “Section headings will be underlined in red”.

⁵¹⁰ [Marshall's footnote:] “*This chapter is based on a part of the present writer's answers to one of the questions promulgated by the Royal Commission on Local Taxation in 1899: they are printed in this Report (C-9528)*”.

synchronize. If that difficult condition is satisfied, the system may be equitable, though any one part of it regarded alone would be inequitable.

A non-remunerative tax assessed on anything is *primâ facie* onerous to its owner unless and until he can shift the burden elsewhere; but it does not follow that, in considering the equity of a system of taxation, the continuation of this same tax should be regarded as onerous to a new holder into whose hands the thing has come either by purchase or inheritance. The new holder has, no doubt, acquired a property of less value than if there had been no such charge upon it. But the question whether this charge is one to be henceforth counted as entitling him to some exemption from other taxation cannot be solved without inquiry as to the conditions, implicit and explicit, under which the original title to the thing was obtained. Such inquiries are of importance chiefly in relation to rights in land and to durable monopolies, whether complete or partial.

It used to be held that all persons should contribute to the system of onerous taxes in proportion to their net incomes. But now the opinion seems to be gaining ground that the poorer classes should contribute a smaller percentage of their revenues than the middle classes; and these, again, a smaller than the richer classes.

It is true that so long as a person retains the right of voting on the levying and expenditure of taxes, it is not safe that he should wholly escape onerous taxes. But it may be safe and reasonable to return to him or his children the equivalent of his payments in such benefits as will increase physical and mental health and vigour, and will not tend towards political corruption. *The equity of a system of taxation will be considered in the next chapter.*

Net income *may be taken* to be gross income after deducing for wear and tear, and for replacement of capital. These deductions are large in the case of income derived from perishable property, and incomes derived from personal exertion.

Income, so defined, seems, on the whole, the best basis of a system of taxation; but it has many deficiencies. It presses unduly on those who do not spend the whole of their income, but save some of it: they are taxed on their savings, and they are taxed again on the revenue derived from their savings.

Taxes on expenditure evade this difficulty, but have others of their own. Expenditure in general cannot be defined, still less can it be assessed. Nearly all taxes on particular forms of expenditure have technical faults, which make them productive of great harm to the community in proportion to the funds which they yield. The chief exceptions are taxes (and rates) on houses and stimulants; for they can be kept at a high level

without much economic waste: but at the present they press with disproportionate weight on the poorer classes.

Perhaps also it may be possible to partially exempt savings from taxation for a limited number of years, so as to avoid the injustice of charging twice the income from which they are saved. Any such plan must necessarily proceed on broad lines, and ignore the lighter considerations of equity when seeking to adjust the weightier: it would need to be introduced gradually and tentatively but even if the total burden of a system of taxation could be adjusted progressively to expenditure, there would still remain a fundamental inequity: *for it* would not strike at indulgence in easy-going habits of life. If, of two persons with equal capacity, one works twice as hard as the other, taxes adjusted to expenditure will strike him more heavily than the other, though he has deserved better of the State. The greater part of economic science is occupied with the diffusion throughout the community of economic changes which primarily affect some particular branch of production or consumption; and there is scarcely any economic principle which cannot be aptly illustrated by a discussion of the shifting of the effects of some tax “forwards” i.e. towards the ultimate consumer, and away from the producer of raw material and implements of production; or else in the opposite direction, “backwards”.

It is a general *rule* that if a tax impinges on anything used by one set of persons in the production of goods or services to be disposed of to other persons, the tax tends to check production. This tends to shift a large part of the burden of the tax “forwards” on the consumers and a small part “backwards” on to those who supply the requirements of this set of producers. Similarly, a tax on the consumption of anything is shifted in greater or less degree “backwards” on to its producers. Thus nearly all taxes are shifted in some degree.

A tax upon a pure monopoly cannot be shifted; provided it is assessed either upon the monopoly as a unit or on the net profits of the monopoly. In neither of these cases does it affect the calculations of the monopolist as to the price which will give him the greatest aggregate excess of receipts over outgoings. But it will be shifted, more or less, if it is assessed on his gross receipts; or according to any other plan which causes it to increase with the amount of services he renders to the public: for then the tax will make it worth his while to diminish the amount of his services, and thus raise their price.

The ownership of land is not a monopoly. But much that is true of a tax on monopolies is true also, though for different reasons, of a tax on that part of the value of land which is not due to recent investments of labour or capital in it by its owner. Any tax which is so levied as to discourage the

cultivation of land or the erection of buildings on it, tends to be shifted forward on to the consumers of the produce of land or the users of buildings; and, if the buildings are used for the purposes of any trade, then further forward still on to the consumers of the products of that trade. But a tax on that part of the (annual) value of land, which arises from its position, its extension, its yearly income of sunlight and heat and rain and air, cannot settle anywhere except on the landlord; a lessee being, of course, landlord for the time. This (annual) value of land is sometimes called its "inherent value"; but much of that value is the result of the action of men, though not of its individual holders; and therefore it is perhaps more correct to call this part of the annual value of land its "public value"; while that part of its value which can be traced to the work and outlay of its individual holders may be called its "private value". Speaking generally, a tax on the "public value" of lands does not diminish the inducements of cultivators to cultivate it highly, nor of builders to erect expensive buildings on it. Such a tax therefore does not, in general, diminish the supply of agricultural produce or of houses offered on the market, any more than a tax on the net profits of a monopoly does. It therefore is not shifted away from the owners of land.

Taxes on buildings and on that part of the value of land, urban or rural, which results directly from investments of capital by its owners have peculiarities of their own which will be discussed *shortly*. In general they tend to be shifted in the same way as, though more slowly and irregularly than, taxes on movable goods. We may, then, illustrate the general process of shifting by the typical case of a tax upon the product of a staple trade.

An unexpected and heavy tax upon (say) printing would strike hard upon those engaged in the trade, for if they attempted to raise prices much, demand would fall off quickly; but the blow would bear unevenly on various classes engaged in the trade.

As printing machines and compositors cannot easily find employment out of the trade, the prices of printing machines and wages of compositors would be kept low for some time. On the other hand, the buildings and steam engines, the porters, engineers, and clerks would not wait for their numbers to be adjusted by the slow process of natural decay to the diminished demand; some of them would be quickly at work in other trades, and very little of the burden would stay long on those of them who remained in the trade. Part of the burden, again would fall on subsidiary industries, such as those engaged in making paper and type, and a part of it would be borne by authors, publishers, booksellers, &c.

This case illustrates well the contrast between the incidence of Imperial and of local taxation, for if the tax were only local, the compositors would

migrate beyond its reach; and the owners of printing houses might bear a larger and not a smaller proportionate share of the burden than those whose resources were more specialised but more mobile. If the local tax were uncompensated by any effect which tended to attract population, part of the burden would be thrown on local bankers, grocers &c, who would meet with diminished custom.

So far I have avoided technical phrases. But the kernel of the problem can, perhaps, be brought out better by a free use of them. The income derived from "land" in the narrower use of the term – that is, from the "public value" of land – is a "Rent" in this strict sense that its amount is governed by the general market relations of demand for, and supply of, the commodities which it produces, and not by the exertion or sacrifice of its owner. A tax upon this rent does not therefore alter the action of the owner; for he takes none in order to earn this rent: it does not "enter into the cost of production" of the commodities raised on the land. A tax on it does not alter that cost; does not restrict the supply of the commodities; does not raise their value; is not shifted forwards; and, of course, cannot be shifted backwards.

Income derived from durable improvements in land is popularly called rent. A tax upon it would diminish the inducement to make similar improvements and prevent some old improvements from being renewed and thus in the very "long run", it would increase that "cost of production" which has to be covered to make production profitable, and would ultimately stint production. Most of it would, therefore, ultimately be shifted forwards on to consumers, though, perhaps, a small part might be shifted backwards on to those who supplied the appliances needed for making the improvements. In the very long run, therefore, the income derived from these improvements has to be regarded as profits on investment.

But yet popular usage is right in treating this income as a rent rather than as profits for most purposes. For the tax could not for a long time produce an appreciable effect on the amount of such improvements, nor therefore on the supply of the commodity, nor therefore on the price which the consumers paid for it. Meanwhile, the income derived from the improvements would be governed practically in the same way as the rent of land; that is, by the general market relations of demand for, and supply of, the commodities, and not by the slackening or increasing exertions or sacrifices of the owner of the improved land. In short, the income would be a "Quasi-rent", partaking partly of the nature of rent, and partly of the nature of profits: but being more akin to a rent than to profits for the purpose of discussions as to the incidence of taxes for a long time, perhaps

a whole generation. But it would be more akin to profits than to rent for discussions as to their ultimate incidence.

In the case of less durable improvements, we should have similar results but for shorter periods. For the tax would quickly affect the supply of such improvements and, therefore, of the commodities raised from the land; and would, therefore, raise their price.

More generally, the shorter the time required for altering the stock of appliances for production, the shorter is the time during which the income derived from them is to be regarded as a quasi-rent – that is, as an income, a tax on which must be borne by the owner of the appliances, and cannot be shifted by them appreciably, either forwards or backwards; or, in other words, the shorter is the time required for the tax to act on the income as though the income were profits from fluid applications of capital.

All skilled workers, whether employers, employed, or professional men, are in the possession of specialised appliances for production, the stock of which cannot be very quickly altered. Part of their income is the earnings of effort, and a tax on this part would immediately stint effort and would, therefore, be immediately shifted more or less from the workers on to the community. But part of their income is of the nature of returns on investments in specialised appliances of such a nature that their stock cannot be increased or diminished quickly, and this part of their income is for the time a quasi-rent; a tax upon it will, for a considerable time, remain on the workers and not be shifted.

If any land, whether improved or not, or any machinery or industrial skill, or any other thing, can be easily and immediately applied to more than one branch of production, then the income derived from it is always to be regarded as profits or earnings, rather than as rent or quasi-rent, in any question that exclusively concerns any one of those branches. A special tax on the thing in that use alone would cause it to be turned quickly to other uses, and the tax would be shifted at once on to the consumers of the things produced by it in that use.

4.2. The ultimate incidence of national taxes levied on generally buildings

In English urban tenures there are commonly three distinct interests. First are those of the “ultimate” owner, popularly but incorrectly called the “ground owner”; he has an annuity secured on both building and land for the present, and will be owner of both when the building lease falls in. Secondly are those of the “interim owner”, sometimes called “the building owner”; he owns both building and land to the end of his lease, unless he

has himself leased them out. In that case, he has a secured annuity on them during the lease granted by himself, with a reversion of both building and land from the end of that lease to the end of the first lease; there may thus be a series of interim owners. Lastly, there is the tenant, who may hold on lease.

The building has practically no value apart from the land, but that value which the land would have if cleared of buildings has been called the "site value" of the property. It is convertible with the "public value" of the land (see V,5), provided it be so reckoned as to exclude the value of improvements made below the surface by the owner or his predecessors.

If a uniform Imperial tax be levied on the annual value of all land and buildings, the building part of it tends to settle on the occupier; or on his customers, if he uses the building for trade purposes: but the site part of it tends to settle on the owner for the time being, that is, on the interim owner, in so far as it is imposed during his lease; and on the ultimate owner when he comes into possession. If, however, agricultural land is exempt from the tax, then the tenant escapes only that part of the site tax which is assessed on the excess of the value of the land for building uses over its value for agriculture. This is of little importance practically, except when a large garden attached to a house is taxed at the value of urban land.

Passing to Inhabited House Duty, we find trade premises and very small houses exempted from that. In consequence, tenants of large houses cannot make the owners bear the whole tax on the site value. For the owners will not erect large houses till there is already such scarcity of them that they give to the owners as good a return as could be obtained by an equal outlay in building trade premises, &c. Houses of a medium size and premises used for trade and dwelling combined are partially exempted from the Inhabited House Duty, and their case is probably about the same as it would be if there were no exemptions at all.

These are tendencies, not actual results. But the differences between the two are not very great now, so far as the Inhabited House Duty is concerned, for that has altered its form but little of late years. The various causes by which such tendencies are retarded will be discussed in relation to rates, which change rapidly.

The tax has *so far* been assumed to be "onerous". But if it be so expended as to confer direct benefit on owners or tenant, the results will be different. This consideration, also, may be neglected in considering the *national* Inhabited House Duty: it is of first rate importance in regard to *local* rates.

4.3. *The ultimate incidence of urban rates*

The *national* Inhabited House Duty, being onerous, tends to check building. But many *local* rates are so expended as to provide the householder with necessaries, comforts, and luxuries on cheaper terms than he could provide them for himself: *and an* increase of such expenditure may attract tenants instead of driving them away, may increase local building instead of checking it, and may raise the ground rents at which land can be let on building leases: the ultimate effects of such rates can be ascertained fairly well by discovering the effects of onerous rates, and then reversing those. Other rates, e.g. school rates, are onerous to some classes of society, and beneficial to others. Rates devoted to improved school buildings tend to attract artisans, but slightly to repel well-to-do residents for the time being; though in the course of a generation they may so much improve the character of the neighbourhood as to raise the value of land for building expensive houses, as well as for other purposes. Such considerations show that any general statement as to the incidence of rates must be incorrect. But fairly definite conclusions may be reached as to the incidence, immediate and ultimate, of onerous rates, that is, of rates, the burden of which is not compensated by any equivalent local gain. And thence the incidence of other rates can be inferred more or less, when account has been taken of their special circumstances.

Next, as to the distinction between rates on site and on building values. It is true that the tenant does not distinguish between them. But anyone, whether ultimate owner or not, who is thinking of erecting buildings on the land, will reflect that expensive buildings would be subject to heavy rates. If in doubt between putting expensive and inexpensive buildings on any site he has chosen, he will be turned towards the inexpensive by the expectation of a rise in the rates, in so far as they are assessed on building values. But his decision will not be affected by that part of the rates which is assessed on site values; though, of course, before deciding whether to erect any buildings at all, he will have had to consider whether the site value would escape rates if kept vacant. Thus the site value and the building value parts of exceptionally heavy onerous rates press temporarily with almost equivalent weight on the owners: but ultimately the building value part alone presses upon the tenant: it alone tends to drive away population and trade.

These are general tendencies; the causes which prevent them from being applied in prediction resemble those which prevent the mathematical reasonings from being applied to the course of a ball on the deck of a ship that is rolling and pitching in cross seas. If the ship would but stay at one

inclination, the movement of the ball could be calculated. But before any one tendency has had time to produce much result it will have ceased to exist, and its successor cannot be predicted. Just so, though economists settled once for all, nearly a century ago, the general tendencies of the shifting of taxation; yet the relative weight of onerous rates in different places often changes so rapidly that a tendency may make but little headway before it is stopped off, or even reversed, by changes which cannot be predicted⁵¹¹.

Those rates which are truly onerous are less in amount, and vary less from place to place than is commonly supposed. A place which has incurred a large debt for enterprise that have been unfortunate or wastefully managed may expect a large share of onerous taxes for a long while, but such cases are not numerous. A place which has a large pauper population and offers no great attractions for industry or residence, has a prospect of long continued high poor relief rates: and such cases are considerable, even when allowance has been made for future widening of rating areas so as to make rich districts bear a larger share of the burden of the neighbouring poor. Inequalities of school rates come partly under this head. Subject to the two last exceptions, exceptionally onerous rates are chiefly due to transitional causes. One possible cause is present bad management, but that is likely to work its own cure. A more frequent cause is a recent wakening of the district to a sense of responsibility in sanitation and other matters: such of the consequent expenditure as is necessitated by natural defects of the situation may be permanent; but even this, if wisely conducted, diminishes the relative disadvantages of the district and increases its attractions to builders.

In short, it seems probable that the cases are somewhat rare, in which the truly onerous rates of a district are fairly certain to last for a considerable part of the life of a house or the duration of a building lease. That is, it may be surmised, that there are not very many cases in which a builder, after taking account of the direct and indirect local benefits which are obtained at the expense of high rates, will be repelled by the fear of rates from building in a place which he would otherwise have selected without hesitation.

A tax on one site has the effect of a betterment on a rival site which escapes the tax, if two similar premises are adjacent, but the boundary between high and low rates comes between them, so that they share

⁵¹¹ [Marshall's footnote:] "In this connection reference may be made to an article written by Professor Cannan in the *Economic Journal*, 1894".

equally the benefits of rates to which they contribute unequally; then their rents vary inversely as the rates.

Differential rates, which favour any special use of land, will raise or lower aggregate rents, according as the places which they specially favour are, or are not, those which already have special advantages for that use. If applied over the whole country, or in places chosen at random, they will slightly lower aggregate rents. Similarly, the under assessment of the older and more-highly rented parts of a town, which is said still to be not very uncommon, tends to raise rents. If carried very far, it might lead people to prefer *rather* small sites in the central area to large sites outside: and in the result aggregate rents might conceivably be higher than if there had been no rates at all. This, again, is akin to an old paradox, viz., that a tax of so much per acre *of agricultural land*, or any other tax which differentiated against poor soils, might conceivably raise aggregate rent near a district where they can obtain the special things and services needed in their trade. The tenant is further hindered by the expense and trouble of moving; that may be the equivalent of two years' rent; and, if so, he will lose by moving unless the differential advantage which he secures in rates amounts to 2s in the £ sustained for 30 years.

The mobility of the working classes is, in some respects, greater than that of the well-to-do; but, when rates are compounded, friction sometimes acts on the side of the tenant. The manufacturer is often affected *almost* as much by the rates on his workmen's dwellings as by those on his own premises; and though high rates may be among the causes which have driven some manufacturers out of large towns, it is doubtful whether a curtailment of expenditure from the rates would have much lessened this centrifugal force: *for* most new expenditure from the rates materially increases local comforts or lessens local discomforts.

An equalisation of remunerative rates, while their expenditure was unequal, would be, generally speaking, unjustifiable. A small increase in rates is apt to escape the attention of well-to-do residents. *It* presses perceptibly on shopkeepers, lodging-house keepers &c., and it influences their action. *But*, though thus a disproportionately great evil to them at first, *the* increase ceases to be any burden at all to them ere many years are past, *if the rates are well spent*: unfortunately they do not always recognise that this is so.

The incidence of a long-established rate is a little affected by its being collected from the tenant, *instead of* from the owners; but it is vitally affected by the proportions in which the rate is assessed on site and building values respectively: the main part of the former settles on the owners, and of the latter on the tenants. On the other hand, the incidence

for the first few years of an increase in onerous rates is much affected by the mode of collection: *for adjustments are slow*. The occupier bears more of the burden than he would if part of the rates were collected from the owners, or he were allowed to deduct a part of them from his rent.

The removal of onerous rates yields a passing benefit to the tenant: but the greater part of the gain goes to the interim and afterwards to the ultimate owners. If these owners have acquired the property since the rate was imposed, the remission of the rate is a present to them of so much public property. As regards a rate which falls on trade premises and especially shops, the case is still stronger: *when* a new rate is imposed, they bear for a time a burden out of proportion to their resources. *Similarly* when the rate has well settled in, and they have thrown on their customers that part which cannot be shifted on to the owners and which the tenant of a dwelling-house would, therefore, continue to bear for himself, then the sudden remission of the rate enables them to retain themselves for some time a double share of public property. *These* remarks apply *specially* to neighbourhoods, that are making progress. Where the population is receding, and building has ceased, onerous rates tend to press upon owners. But in such places economic friction is *often* strong.

4.4. The incidence of rates and taxes levied on agricultural land and buildings

In so far as *rural* rates are remunerative in the immediate present they stay with the farmer, but are no net burden to him. Rural populations probably bear less onerous rates than is commonly supposed. They have gained by improved police service and the abolition of turnpikes, and they have increasing access to advantages purchased by high rates in the neighbouring towns, to which they do not contribute.

(2). A considerable part of those rural rates, which are really onerous, is fairly uniform all over the country, and its incidence is like that of an Imperial tax on rent. A tax on that part of rent which results from the "original and indestructible powers of soil" must settle on the owner of the soil. But the farmer *almost* "always has a lease, even when he has none": and a new tax collected from the farmer would be likely to remain for some time on him, unless there were other causes at the time tending to readjust his relations with his landlord.

(3). A tax on that part of a landlord's income, which, though called rent, is really the return to capital applied to the land by him or his immediate predecessors in title, stands on a different footing. If a tax be levied on that, and not on the income derived from capital applied to other uses, then

the tax discourages cultivation and tends to raise the price of produce. If the country cannot import food, the consequent rise of price may be such as nearly to recoup the farmer soon, and therefore the landlord ultimately. (If the tax had been on all agricultural produce, and the whole of that produce had been strictly necessary, then, according to a third old paradox, it would have raised the value of produce in the same ratio as it lowered produce-rents; it would, therefore, have left real rents unaltered). As it is, such a tax would press at first on farmers in their capacity of implicit lessees, and afterwards on landlords; and it would diminish a little the employment of farmers and labourers in making improvements for the landlord. But the tax would not bear on the returns to the farmer's own capital, and it would therefore afford a slight stimulus to modes of cultivation that did not require additional landlord's capital.

(4). If the onerous tax were local only, its incidence on consumers through prices would be still smaller. But local production would be checked more rapidly, and meanwhile the local farmer would be in a rather better position for transferring to the landlord that part of the tax which fell on the returns to (the quasi rent of) landlord's capital sunk in the soil.

(5). Such taxes on agricultural land as have been imposed for a long time are no direct burden on present landowners, farmers, or labourers; though they may give to present owners in certain cases some indirect claim to consideration. Speaking generally, any remission of such taxes would be a present of public property to the owners, a small part being caught by the farmers on the way. Any relief as regard old rates should therefore apply only to new buildings and other fresh investments of capital. That would stimulate agricultural activity, give new employment to farmers and labourers, help to keep the profit on the land, and diminish our dependence on foreign imports of food.

(6). It must be remembered that land may be for a time yielding very little net rent, that is, very little money income in excess of what is needed to remunerate landlords' capital; and yet be a valuable property. It may have possibilities as urban land, or it may contain minerals; and in any case, its ownership is likely to yield an income of satisfaction outside of the money rent received for it. In so far as this is the case, land is apt to be under-assessed even when rated at its full rental value. Properly, it should be assessed at a percentage on its capital value.

7. For reasons which are partly economic, partly traditional, the owner of a farm has something more of partnership with his tenant than has the urban landlord; there are traces of *métayage* even in tenures which are thoroughly "English". When seasons and markets are favourable to the farmer, he pays his full rent and avoids making demands on the landlord

that might set him thinking whether the rent ought not be raised. When things go badly, the landlord, partly from sympathy and partly as a matter of business, makes temporary remissions of rent, and bears the expense of repairs & c., which he would otherwise have left for the farmer. There may thus be much give and take between landlord and tenant without any change of nominal rent. Such adjustments obscure the incidence of agricultural rates, as the eddies of wind rushing past a house will often carry snowflakes upwards, overbearing, but not destroying, the tendency of gravitation. The tendencies of the incidence of rates may even become wholly obscured for a time if the rating question happens to have been made a political issue.

4.5. The incidence of taxes on the transfer of property

If A has a thing which has a less money value to him than it has to B, they will probably trade, unless there is a tax on the transfer. If there is, they will not trade until A's need for it, measured in money, has diminished relatively to B's by the amount of the tax. But no one can say whether this will be affected chiefly by a rise in the net price which B will give for the thing, or by a fall in the net price which A will take. On the average, however, A will be the weaker party, and the delay will throw more of the burden on him than on B.

2. The tax is bad, even when it impinges only on commodities for immediate use. But in fact it impinges chiefly upon instruments of production, and thus it is very bad. For it hinders their adjustment to the needs of the community. A heavy tax on the transfer of land and buildings assists the laws of entail in keeping property in the hands of landlords who cannot do their duty by their tenants. These taxes resemble taxes on underfed labourers; they are collected barely once, but they are paid several times.

3. Taxes on the transfer of any kind of property slightly lower its value even to a willing purchaser; for the same reason that, of two stock exchange securities on the same basis, that one will sell for the higher proportionate value which belongs to the larger issue.

4.6. The incidence of taxes on trade profits

Profits, in my opinion, are not an economic entity. They include some interest on capital, some earnings of ability and work, and, often, some insurance against risk. But there is no uniformity of practice in the business world, and no common agreement among economists as to how

much of the earnings of work and ability shall be reckoned as profits in any particular case.

2. If this difficulty could be overcome, there would remain a more serious one, which would by itself prevent the adaptation of the old broad doctrines about taxes on profits to the more refined results of modern analysis. The elements of which profits are composed obey different laws, and they enter in different proportions (whatever definition of "profits" be taken) in different industries, in the same industry in different places, and in large and small businesses even in the same industry and in the same place. It would, for instance, be necessary to discuss on different plans the profits of a large joint stock company, where salaries of a thousand a year are not reckoned with profits; and those of a small tradesman whose profits include the earnings of much manual labour. Some taxes on profits would increase the influx into the learned professions, and tend to lower the earnings of medical men. Others would increase the pressure of candidates for apprenticeship to the bricklaying trade. All taxes on profits would tend to check the growth of capital and to increase its emigration; some of them would tend perceptibly to increase the emigration of persons and so on.

3. Generally speaking, the incidence of taxes on profits is widely and evenly diffused; they run over rapidly from one part of a trade to another and from one trade to other trades. And this is one reason why there are very few incomes from movable or personal property in England which have not helped to bear the burden of rates. The case of income derived from property abroad is different.

4.7. The Incidence of Death Duties

The old objection to taxes on inheritance that they are paid out of capital, and that the heir is apt to live up to the full income which he has inherited, seems to me to have great force still. No doubt this question, as well as the allied question whether much war expenditure may be safely be defrayed by loans, has changed its position during the century with the growth of wealth and the development of international markets for capital. But the very fact that death duties seem less inequitable, and to press less hardly on any one, than other taxes of equal intensity, suggests that they may still affect savings much as our forefathers thought they did. On the whole I think no one generation should very much increase them; experience alone can show whether we have outgrown the stage in which the incidence of such taxes lies heavily on the springs of prosperity.

2. Special death duties on any one kind of property are duties on its compulsory transfer and lower its value. Such duties, if assessed on the

“public” value of land, would not affect production; if assessed also on farm buildings &c., they would be a discriminating duty against a special form of investment of capital, and would diminish production and be partly incident on the community.

Some general conclusions

The scope of local government has changed, is changing, and is likely to change faster than ever. Our duty at present is to experiment freely, but to move cautiously; to abstain equally from any formal recognition of existing customs which might tend to stereotype them, and from any organic alteration which might claim to govern future development. We should aim rather at handing down to the coming generation some serviceable experience, together with freedom in dealing with the problems which have just risen above the horizon, and others that have not yet risen.

For, indeed, it is possible that the recent changes in the general relations of “central” and “local” government will be carried much further. The government of a Swiss canton or an American state seems to belong to an intermediate class which may be called “provincial” standing between the central authority and the local authorities properly so called. It seems possible that the London and other county councils may grow in importance and responsibility; and that the term “local” will be generally applied to minor authorities, subordinate to these provincial authorities. I therefore deprecate any attempt to delimit the functions of local government just now.

If much freedom is allowed to first class local authorities, some are sure to pioneer new paths, which the whole country is not yet ready to tread. They will have more initiative, more invention, more willingness to take trouble for the public good than is always found in the officials of a large central department. But other local authorities will lag behind. The chief work of the central authority should perhaps be, on the one hand, to help the most enlightened local authorities in comparing, criticising, and profiting by the experience of one another; and, on the other hand, to put pressure on the more backward to work up to a high level.

This requires some approach to uniformity in local work, partly for statistical purposes. But all power of variation, that is consistent with order and economy of administration, is an almost unmixed good. The prospects of progress are increased by the multiplicity of parallel experiments, and the inter-communion of ideas between many people, each of whom has some opportunity of testing practically the value of his own suggestions.

The constructive work of government, and especially of local government, is life itself in one of its highest forms. Taxation is but a means: and in a country which has rid herself, as England has now, of all taxes which are in themselves mischievous, the reform of taxation should be subordinated to the development of the constructive work of government. *There are grave objections to the allocation of central taxes to local purposes. A less harmful expedient is the granting of frank contributions from the Exchequer, given in aid of local services, and on the conditions of their being efficiently performed.* Of course, they should not be given in aid of remunerative rates: but onerous rates are generally devoted to purposes of national as well as local importance, e.g. poor relief, asylums, police, education. When the appropriate *Department* at Westminster has satisfied itself that local authorities *are* performing any of these duties with vigour and intelligence, it should abstain from interference except for urgent cause. But when they are laggard, or behind the general progress of the country, the *Department* should threaten the withdrawal or diminution of the grant, should specify the faults which had to be removed, and should *perhaps somewhat extend its* detailed supervision.

Each first class local authority should have considerable freedom of experiment as to methods of raising revenue. It should, however, be prohibited from taxing persons on account of property which they own, or income which they earn, outside of its area. And since new taxes, and especially new local taxes are apt to be much more vexatious, burdensome, and unjust than the same taxes would be if they had time to diffuse themselves and settle, every proposed change in the scheme of taxation should be submitted to the central government. Great and sudden changes should be discouraged, and especially such as might press with exceptional weight on any one class.

The central government should remain the guardian of the ratepayer of the future against debts incurred for extravagant expenditure in the present; especially because the growth of migratory habits among the people increases the chance that those who have voted for new ventures, partly because they will give additional employment to labour, will not stay in the locality to bear their share of the rates involved. It should prohibit wasteful tolls, octroi duties, &c.: but it should recognise as *prima facie* reasonable a claim of a local authority to assess outlying districts to special rates, the expenditure of which will benefit those districts; and it should adjudicate on such claims: or perhaps it should set up gradually more and more powerful and extensive provincial authorities for dealing with them. As regards the supply of water, local interests cannot be isolated. The chief sources of water supply should therefore be declared national

property; and after compensation to private owners, they should be leased, subject to conditions, to local authorities.

The same is true of fresh air. The central government should see to it that towns and industrial districts do not continue to increase without ample provisions for that fresh air and wholesome play which are required to maintain the vigour of the people and their place among nations; this is, perhaps, the most important financial responsibility which has not yet been faced. We need not only to widen our streets and increase the playgrounds in the midst of our towns. We need also to prevent one town from growing into another, or into a neighbouring village *by keeping* intermediate stretches of country in dairy farms, &c., as well as public pleasure grounds. *Some compensation to private interests may be needed: but it may be paid in part by levies on neighbouring land whose value will be increased by the maintenance are near* [.]^{clvii}
[undated]⁵¹²

⁵¹² Text mainly cut out from “The Memorandum on the Classification and Incidence of Imperial and Local Taxation”, for the Royal Commission on Local Taxation (1897), (in Keynes 1926:327-64). The text was greatly amended and changed by Marshall for a complete chapter: “Chapter IIP” to be inserted in the book on Progress. The text cut out from the published Memorandum is given here in plain type, the additions in italics. The folios are inside a brown folder on which is written: “Book II Chapter III, The Ultimate Incidence of various taxes (This is made from the Memorandum on Local Taxation)”. Another copy of the same Memorandum with similar changes but a rougher copy and somewhat incomplete is present in the archive, inside a brown folder titled “Chapter V The ultimate incidence of taxes on land and building”. A small white folio is also present, on which is written in blue pencil: “Note to the printer. This Memorandum of my own was printed in a Blue-book many years ago. I placed a copy in a library for students, one of whom scribbled over it in a most improper manner. The Blue-book has long been out of print and unobtainable even in second hand bookshops. So I must use this defaced copy.”

CHAPTER III

DUTIES AND PREFERENTIALS

1. General Protective Duties, Tariffs and Bounties

1.1. General Characteristics

Every tax is protective, whatever its purpose, unless it falls on a thing which cannot be produced at home to any extent even with the tax.

The protective effects of a tax are prima facie

Good in so far as they

fall on things which it is for the collective interest to produce at home: i.e. I[ncreasing] R[eturns] goods in a sparse country, especially if she lacks an adequate supply of urban centres: and D[ecreasing] R[eturns] goods in a country such as is Germany in Wagner's opinion.

Bad in so far as they

fall on I[ncreasing] R[eturns] or any other goods in a country which exports only I[ncreasing] R[eturns] goods, unless for Wagner's reason[.]

or fall in a country bare of capital on IR goods which absorb a large quantity of capital that would better be applied to road making, railway making & c.

Indifferent in so far as they:

fall on I[ncreasing] R[eturns] products in an I[ncreasing] R[eturns] exporting country, and have effective rebates for imports worked up into exports.

But the applications of the rebate system are very limited and we shall see presently that they are not applicable to exactly those export industries on which B[ritain] must increasingly depend she needs FT⁵¹³ areas

⁵¹³ Free Trade.

Bad in so far as they

diminish consumers surplus; and that comes to little in regard to I[ncreasing] R[eturns] imports in a I[ncreasing] R[eturns] country; but to a very great deal in regard to those I[ncreasing] R[eturns] goods which are not specially fitted for artificial aid in a sparse country (see Pigou in *Economic Journal* 1907 p.292⁵¹⁴)

bad in so far as they divert capital and energy from repairing and other industries which could create small towns in Victoria, and go to swell that great wen

Good

on I[ncreasing] R[eturns] goods in so far as it concentrates energy and capital on certain classes of I[ncreasing] R[eturns] goods in each country on two vital assumptions (which are latent in most TR⁵¹⁵ arguments)

- 1) concentration does not lead to monopoly prices
- 2) concentration does not greatly increase technical economies without greatly lowering human energies.

Bad: [...] ^{clviii}

[dated 10.5.10; 6.2.11; 18.7.11]⁵¹⁶

Every import duty not balanced by a corresponding excise duty differentiates between home and foreign sources: but a “differential import duty” is generally understood to mean one which differentiates between different external sources. There are cases in which such a duty has a very disturbing effect on trade: there are others in which it has scarcely any substantial effect. If Italy were to levy a differential extra duty on wheat coming from Canada, Canadian wheat could be easily marketed

⁵¹⁴ A.C.Pigou, “The Incidence of Import Duties”, *Economic Journal*, 17(66): 289-94.

⁵¹⁵ Presumably referring to the Tories or the Tory party.

⁵¹⁵ Free Trade.

⁵¹⁶ Text written in red pen on blue folios numbered pages 1-3. The date “10.5.10” is written with the pen used for the text and the title “Taxes on imports and D[ecreasing] and I[ncreasing] Returns”; added between the lines of the text in black pen “6.2.11 For wind up of XVIII or XX”; added with another red pen (different ink) in the margin of the first page “For Book IV. Protective duties, not used in III XVIII 18.7.11”.

elsewhere, and Italy could be easily supplied with wheat from Argentina & c., which might otherwise have gone to Britain and Germany: there could be no perceptible increase in the aggregate demand for either Canadian or Argentine wheat. So if Germany were to levy a differential duty on butter from Denmark, a little more Danish butter would go to Britain, and a little more Dutch and French butter to Germany. If Britain were to levy a special tax on Dutch butter, her imports of it would practically cease: for Dutch butter can be easily marketed in Germany and Britain has several more abundant sources of supply. But the exports of Danish butter into Britain are larger than the total imports of it to any other country; and a special tax on it levied in Britain would cause a disturbance not easily to be righted: Danish dairies would feel its pressure for a long while, and butter would for a long while be rather costlier in Britain than if the tax had not been levied.

These considerations suffice to show that a general argument from the incidence of a tax assessed on a commodity from whatever source it comes, cannot be applied without modification to import duties of a more or less differential character. But yet there are some fundamental principles which are common to all[.]⁵¹⁷

This class of considerations is important in connection with preferential or combative (sometimes called “retaliatory”) custom duties. But for the present we may neglect them and suppose that whatever duty is levied on a commodity of a given class and quality from any external source is levied on like commodities from any other external sources.^{clix}

*[undated and dated]*⁵¹⁸

An argument that a country with a general protective tariff has less power of relieving her home market, when depressed, by exporting at low prices (not more power as the protectionists allege) than a free trade country[.]

A tax on the importation of a single product of small aggregate value is under discussion: for such a tax would not materially affect the relative purchasing power of money in the countries concerned, unless indeed it should by implication involve taxes on other imports. But steel products are large in aggregate value; and taxes on their importation are not in fact dissociated from other import duties. The policy of which they are a part

⁵¹⁷ Above this part of the text is added in red pen: “9.2.10. Similar to this is the case of gold. But either here or at the end of wheat put case of Argentina → Italy shipping; which raises broad issues. In Germany better case there is not this element”.

⁵¹⁸ Text written in black pen on white folios, not numbered.

has had the effect of lowering the purchasing power of money in regard to many products in Germany relatively to Britain: this is especially the case in regard to the staple food of the people. A German steel producer who receives in, say, Argentina, the equivalent of a certain amount of gold, part of which he retains, while he in effect distributes the rest among his employees, and others. A British producer does the same in regard an equal amount of gold. But the gold, the command over which is distributed by the German will buy less things generally than that distributed by the Briton: and especially it will buy less wheat; though a century ago the price of wheat in Germany was about half its price in England⁵¹⁹. *clx*
*[dated 14.6.17]*⁵²⁰

⁵¹⁹ [Marshall's footnote:] "It is impossible even to indicate here the numerous complex side issues that are involved in such a statement as this. But it may be worth while to point out that the general purchasing power of money in regard to many things, and especially the necessaries of life may be and often is high in a country which has a high protective tariff. The statement made in the text is true in a comparison between Germany and Britain; because the general economic conditions of those countries are similar: but it might not be true if Germany were able to obtain her food supplies from her own resources and from neighbouring countries to the East with very low costs of transport on such favourable terms that their money prices (in spite of the import duty) were lower than in Britain. The statement in fact implies only that a general protective tariff causes the purchasing power of money to be less than it otherwise would be. And there are some few cases in which the influence of a protective duty on prices is small. The chief of these is America: for she has such vast and varied resources that she could without much difficulty supply nearly all her wants, except in regard to tropical products, and some subtle manufactures. The wholesale prices of most other things are not high in America, in spite of the fact that the rate of money wages per hour is very high in nearly all industries; and yet capital can earn high profits. The chief causes of this are the vast energies of her workers; the ease with which her consumers accommodate themselves to such products as can be got by massive mechanical production, with but little hand labour; and her freedom from necessity of cultivating either agricultural land intensively, or obtaining mineral produce from poor or inaccessible strata. Such matters as these are not directly relevant to the policy of cartel-made prices in connection with import duties: but it has seemed well to indicate them here, lest the broad statements in the text should be applied to issues to which they are not appropriate".

⁵²⁰ Text written partly on a blue folio and partly on a large white folio; the two folios are bound together. The date is written on the blue folio where, in the margin, we find written "For R" and "Written for the last chapter of Vol I: but extended as being either too little or too much."

7. As a general rule the effects of a bounty are of the same character as those of a corresponding tax, but in the opposite direction. Curious issues are raised by a comparison of the effect of a tax exclusively on imports of agricultural products with those of a bounty exclusively on exports of it.⁵²¹

It is obvious that a bounty on production exerts in general influences the reverse of those exerted by a corresponding tax. If for instance we could suppose that one Authority in a country levied a tax of £1 on each ton that was produced of a certain thing, while another Authority gave a bounty of £1 a ton, its producers would be in the same position as if neither tax or bounty had been set up: and both prices and consumption would remain unchanged⁵²².

Hence it may be reasonably inferred that the shifting “backwards” and “forwards” of the benefits conferred by a bounty on various classes of consumers and producers will be in general similar and equal to those of the burden of a similar and equal tax. But in practice this rule is liable to a good many exceptions arising chiefly out of side issues. None of them are of great importance, and most of them have no special bearing on the incidence of frontier duties: but one or two of them should be noticed here. To begin with the path by which an industry of the Increasing Return class ascends to the economies of production on a large scale is not exactly the same as that by which it would descend to a smaller production, if the effective demand for its products dwindled: for many of those economies once gained would never be lost, unless indeed the industry perished altogether⁵²³. Thus, the bounty continuously accelerates the increase of economies, and especially such as depend mainly on the scale of production in the country concerned: the tax retards that growth, but is seldom heavy enough to cause an actual shrinkage of those economies.

⁵²¹ At the beginning “6” was written and then deleted.

⁵²² [Marshall’s footnote:] “It is not necessary to consider here the expense and friction caused by this double Governmental activity: though they have been considerable in cases not very far different from those in the text. For instance Rochefort effectively assailed the Government of Napoleon III because it subsidized Parisian theatres in order to promote national art: *while it* levied a tax on theatre tickets for the benefit of the poor on the ground that those who could afford such enjoyment ought to help the necessitous. The implication of course was that the bounty was distributed, not evenly, but as a *means of exerting influence on the political tendencies of the theatres.*”

⁵²³ See III, xi, 2, and Appendix XIV.9.

Written in the margin of this note in normal pencil: “Retain if present figures can be found”.

This class of considerations will be found to be important in connection with partial manufacturing monopolies, whether private or national, which are much concerned with foreign trade⁵²⁴.

A bounty on anything which belongs to the Diminishing Return class causes additional capital to be applied in directions in which Nature's cooperation is increasingly niggardly. But as the demand for staple agricultural produce generally is not very elastic, a moderate bounty on it would not greatly increase its production, and therefore would not be very wasteful, on the supposition made in §3 that the country has no foreign trade, whether of import or export in such produce. On that supposition it would lower the price of agricultural produce by not very much less than its full amount, at all events until the tax had time to increase considerably the number of months to be fed on it. Thus landowners would not be very greatly benefited by it: though of course it would be a heavy burden on the Treasury.

But the case would be entirely changed if the country exported such produce. Then the bounty might probably have very little effect (at all events in normal seasons) on the value of the produce. Landlords would gain greatly and the burden on the Treasury would be further increased.

And the case would again be entirely changed if the bounty were granted, not on agricultural produce in general, but only on that part of it which was exported. For then home consumers would have to pay the full cost of produce raised under the pressure of a more intensive action of the law of Diminishing Return; while the bounty would enable the produce to be exported to foreign consumers in spite of that pressure. In addition they would be compelled to pay additional taxes of various kinds in order to supply the funds with which the Treasury subsidized the exportation. Foreigners would gain something, the landowners would gain a great deal.

⁵²⁴ [Marshall's footnote:] "As has been seen in Book II, most of the economies of organization and standardization arise mainly out of an increase in the scale of production in the country concerned, though they are influenced a good deal by an increase in the scale in other countries; economies of organization may dwindle, but those of standardization are mostly permanent. More important generally than these are the increased resources derived from the invention of improved machinery and other plant: and of new processes, chemical, electrical and other. These resources soon become cosmopolitan: and when once attained are never lost. But their growth is governed by many other causes besides the aggregate volume of the industry in the whole world, and it depends but little on the scale of production in any country except those which hold a dominating position in the industry."

Written in the margin of this note in normal pencil: "Look up Book II".

But in a normal harvest the people at large would have to pay in one form or another a good deal more than the aggregate of those gains: for they would have to meet the special costs of that part of the produce, which would not have been raised, if there had been no bounty but which was raised in consequence of the bounty and in spite of the niggardliness of Nature's cooperation: thus such a bounty on exportation is at once a heavy tax on the people and a great gift to a particular class⁵²⁵.

Similarly a tax on the importation of agricultural produce tends to raise its value: the extent of the rise being governed by the several elasticities of the home and foreign supplies on lines which have already been indicated. In so far as it does raise value it is a bounty to home producers: the tenant farmer and to a less extent the labourer is likely to get a considerable share *of this bounty* for a time; but nearly the whole of which quickly settles *with* the landowners.

All these matters, with others allied to them will shortly be examined closely and in detail.⁵²⁶

8. A National predominance in general manufacture, or in a large class of particular manufactures, generally indicates a deepest strength of faculties and aptitudes, which is likely to last long. But a predominance in any particular manufactured product seldom has deep foundations. There is but little scope for export duties on manufactures under modern conditions.

In considering the causes which govern a country's exports of raw produce, *stress must be laid on the fact* that her strength as an exporter depends on her differential rather than absolute strength as a producer: and a similar fact dominates the export of manufactures. Just as the agricultural exports of China and India are larger than they would be if those countries had good facilities and aptitudes for supplying their own need of manufactures; so Britain's exports of manufactures would be smaller if, her population being what it is, she were richer in agricultural and mineral resources: while the United States *might* export more manufactures than she does *now* if her territory had been limited by the Mississippi *the Ohio and the St. Lawrence*. But, speaking generally, those countries have strong positions in the export of manufactures, which have the most energetic, alert, and versatile populations, and are best supplied with movable capital. Possessing these faculties and resources they can obtain a large

⁵²⁵ [Marshall's footnote:] "The limiting clause "in a normal harvest" is designed to make room for the benefits which produce designed for exportation may confer on home consumers, when kept at home after an exceptionally bad harvest. This point will be considered later on".

Written in pencil close to the note: "Eh?"

⁵²⁶ In the margin by this phrase "Eh?" is written in normal pencil.

output per head in almost any branch of manufacture: and, though each of them exists more in some branches than in others, her choice of specialities is governed for the greater part by comparatively small peculiarities in the character of her people and in her natural resources. It is true that the plant, the knowledge, the trained instincts and the skill at work in one sub-division of a great manufacturing industry *can* seldom be applied easily or without great loss in another sub-division even of the same textile or engineering industry. But it is also true if the demand at home and abroad for any class of products diminished, while that for another requiring similar faculties on the part of employers and employed increased, such a country could easily halve her output of the one and double that of the other in less than a generation.

In early times national predominance in manufactures often meant nothing more than that a few groups of artisans had gradually developed through several generations a high skill, mainly empirical, in certain narrow branches of production. For instance, the eminent reputation which Spain once enjoyed for swords and steel armour, seems to have been earned by a very small number of her inhabitants largely of Moorish blood; it was ready to evaporate quickly (as did that of several French industries) as soon as the independent habits of thought of the artisans brought on them religious persecution; much of the skill thus exterminated in its old homes was lost for ever. But modern manufacturing excellence *does not* depend *much generally* on traditions, which can disappear: and an industry seldom fades *now*, unless it is surpassed by a new competitor or its products are no longer needed.

On the other hand a preponderance in any particular speciality has very little stability. For as soon as an improved design for (*say*) a printing press or a threshing machine or a loom has obtained a hold on world markets, competitive producers in several countries set themselves to imitate it. If it involves a definite new idea it may of course be guarded for a time by an international patent. But many of those improvements, which are of the greatest value from a purely commercial point of view cannot be so guarded: and the end, attained by *patented improvements*, can often be reached by another route *even* before their short-lived patents expire. Thus then a national monopoly in a narrow speciality seldom has much solid value.

What has solid value is the inventive faculty and resource which creates a speciality and continues to improve on it: each successive improvement *is often* fortified by international patents, before manufacturers in other countries have been able to set a large and highly specialized plant at work on making those forms of the product, as well as of the plant needed for making it, which are no longer covered by patents. There is no country

which has much to gain from export duties on manufactures now; *though* Britain was under some temptation to make use of them early in last century. She did indeed maintain restrictions on the exportation of machinery for a long while; but she ultimately abandoned them for a larger, a more generous and more far-sighted policy (see Appendix XV.8). Something has already been said in Book I⁵²⁷ as to the permanence of certain general characteristics of leadership in the manufactures of the chief western countries; and its relation to the changefulness in detail of modern industry and trade will be further considered below (III. Xviii)⁵²⁸.
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⁵²⁷ Written close to this word in normal pencil: “which?”

⁵²⁸ [Marshall’s footnote:] “The motives which induce many South American and Asiatic Governments to obtain a considerable part of their revenue to-day by export duties operated very largely in Europe in earlier times; and they were strengthened by the consideration that the export trader often required considerable exertion and expense by the Government for his defence. For these and other reasons a great part of the “customary” dues received by English and other Kings in the Middle Ages were export duties; whereas now the term customs duties commonly suggests only import duties. The change was partly due to the influence of Mercantilist predilections for large exports of goods, *which were connected with* the desire to increase the national stock of precious metals, for reasons which were never strong and are now obsolete.

It may be observed that transit duties which were earlier than import duties have played a great part in European history: but recent railway developments have lessened the monopolistic force of many through routes; and the charges made for heavy through traffic on the Continent are now low. Export duties still have a considerable part in Italy’s heavily burdened budget: and even in Prussia they were numerous up to the middle of the last century. It is said that export taxes became prominent in France early in the fourteenth century; and that shortly before the Revolution a third of her customs revenue came from them: her import duties are said to have begun in the sixteenth century.

Perhaps the most striking movement against export duties was that which resulted in the Constitution of the United States, which gives the Central Government full power to levy import duties, but withholds the power to levy export duties. This arrangement though opposed by Washington and other leading statesmen, was conceded to the plea of the Southern States that, since they exported an exceptionally large part of their produce, export duties would have pressed unduly on them, while the proceeds of the duties would have been shared by the Northern States. Export duties on tobacco had been an important source of revenue to Maryland and Virginia in the Colonial days.

For a general view of export duties, see the article by Lexis in the Handwörterbuch der Staatswissenschaften; Grunzel, Handelspolitik; Roscher, Finanzwissenschaft; and Levy, Ausfuhrzölle und die deutsche Hendlpolitik. As to British export

To conclude: the first of the two considerations (see p.) which should guide the selection by any country of exports for taxation points towards those of her products for which foreigners can not find a good substitute easily and quickly. But the other indicates that these are generally unsuitable for export duties; because the nearer her approach to monopoly in any product, the better is likely to be the remuneration of all those who are working on it, whether as employers or as employed; and therefore the stronger the interest which her own people have in expanding rather than checking its exportation. And a *special* objection lies against an export duty on almost every important partial monopoly or preponderance in exportation which is likely to fall to the lot of an old industrial country; viz, that it is a product of an industry in which costs of production are likely to be lowered by an increase of output. These two objections give a solid basis for that eager and organized opposition which in a democratic country brings effective pressure to bear against a proposal to place an exceptional burden on any sectional interest; and they account sufficiently for the desuetude of export duties in the western world.

But the strength of the first objection cannot be properly estimated until the loss which it indicates has been shown to be greater than the gain that can be reached by giving a scarcity value in foreign markets to the product of a national monopoly. And the force of the second cannot be estimated until it has been shown whether those export industries which would be directly or indirectly burdened if import duties were adopted in place of export duties, are not also in urgent need of increasing their foreign vent, in order to realize increased economies of production on a large scale. These difficult problems cannot be solved with precision and certainty: but some light will be thrown on them as we proceed.⁵³⁰

So far the effect of any one export duty has been considered separately. But something should perhaps be said as to the cumulative effect of a number of export duties so great and heavy as to contract a country's trade to within very small dimensions. Such a contraction might conceivably embarrass not only those foreign consumers who are in urgent need of her exports, but also those foreign producers who are in urgent need of a good vent in her markets. If however she were to make the attempt, she would be likely to put her own consumers to great straits for foreign goods, long

duties, see an article in Palgrave's Dictionary; also McCulloch, Taxation and Bastable, Public Finance."

Written close to the text: "Reconsider this Probably omit it".

⁵²⁹ In the margin of this part is written in normal pencil: "Either recast this with corrected references or omit it".

⁵³⁰ In the margin of this paragraph is written in normal pencil "Qe Omit".

before her accumulated export duties had put many foreign producers under pressure to accept unfavourable terms for any of her exports.⁵³¹ *clxi*
*[undated]*⁵³²

But a lowering of railway charges on exports-imports being carried as before – is a bounty on trade: and expands it.
 When as in case of German steel there is given

- (a) a railway bounty
 - (b) an import duty giving facilities for combination
 - (c) special legal facilities for it
 - (d) large State purchases for railways & c. at high price
- there will result relatively high prices at home, excessive plant, continued need for dumping & c.^{clxii}

*[dated 5.5.06]*⁵³³

Protection[:] I[ncreasing] R[eturns] and D[ecreasing] R[eturns]

The notion that a tax on importation of a thing for which the country has no differential disadvantage in its original form takes much out the pockets of the nation beyond what it brings into the treasury in its early form assumed D[ecreasing] R[eturns].

With C[onstant] R[eturns] or I[ncreasing] R[eturns] it is not true in the absence of

- (a) internal combination or sluggishness of employers or traders or employees

⁵³¹ Text deleted at this point: “The attempt could have *but little* chance of success under the conditions of world trade. Even the shortest reference to such a possibility may appear unnecessary. But there is some advantage in emphasizing the symmetry of the abstract relations between export duties, producers and consumers on the one hand; and on the other between import duties, consumers and producers: and the exact counterpart of this possibility in regard to an accumulation of import duties has occupied a large space in practical discussions of fiscal policy. We will proceed at once to consider it.” In the margin of this text a large “Qe” (meaning “quaere” or “I question whether”) is written in normal pencil.

⁵³² Text mainly typewritten with some additions by hand (here shown in italics) on large white folios, numbered pages II 296-305 in normal pencil; BG24-BG33 in red pen; 2-4 and 2-6 in typewritten numbers. At the bottom of the last page is added in normal pencil “Follow on with BH2”.

⁵³³ Text written in black pen on a white folio numbered page “2”. At the top of the page “N” is added in normal pencil.

and that is a reason why Protection does not hurt America very much. But it hurts an old country because that can't in effect protect I[ncreasing] R[eturns] and C[onstant] R[eturns] industries alone: agriculture won't stand that

And of course it lowers viability

And anyhow the benefits claimed for it are non-existent [.]^{clxiii}
[dated 24.4.09 and 10.4.10]⁵³⁴

Protectionist Strategy

Econ[omis]t pp. 131-2⁵³⁵, sets out clearly some original notions which are being introduced into the Bill for "safeguarding" minor industries. The general drift is that if a "safeguard" to one industry enables it to raise its charges against other industries, there may be an effective appeal.

But so far as I can see the ultimate consumer has no place in the matter. Of course it would not be easy to give him one.^{clxiv}
[dated 23.7.21]⁵³⁶

National Self sufficiency

It is reasonable (I do not say wise) to adjust taxation so that
food, clothing & c. in so far as essential to life and efficiency of population in general and of army in particular shall be grown and manufactured under the protection of German guns[,] and accordingly to tax imports of them as a war measure[.]

But these are just the things which as a peace measure it is unjust to tax, and in particular the taxation of what lowers real wages. From the employment point of view, it would be reasonable not necessarily wise to aim rather at taxes on silks, photographing machines & c.^{clxv}
[dated 6.10.03]⁵³⁷

Protective tariffs are

⁵³⁴ Text written in black pen on a white folio. Added in red pen: "Give an abstract of this as raising points to be considered in Book IV not be dealt with here" and two large asterisks with the date "10.4.10".

⁵³⁵ "Safeguard against Protection", *The Economist*, 23 July 1921, Issue 4065.

⁵³⁶ Text written in black pen on a white folio.

⁵³⁷ Text written in black pen on a white folio.

- (i) old mercantilist aiming at selling to the foreigners and not buying back: i.e. purely foolish
- (ii) educative
- (iii) emergency
- (iv) gut of door life
- (v) let pressure of population on means of subsistence drive people abroad only
- (vi) pseudo combative or retaliatory tariffs. For they cannot be protective in so far as they are effective in combat, though often so pretended. ^{clxvi}

[dated 20.1.04]⁵³⁸

Tariffs and stability

(A) If high tariffs were themselves stable, the balance of argument goes to show that they would increase instability; for

- (i) If they favoured special industries so as to facilitate export prices, they would increase the pressure within those industries of competition, with over supply of plant: and though this might be regulated by a cartel or aggregation for a time, it could not be so permanently; and struggles for readjustments cause earthquakes.
- (ii) If high tariffs were fairly spread all around, they would narrow markets and thus increase instability[.]

But (B) in fact tariffs if operative are essentially unstable: being open to attack (a) by those traders who would like better terms than they get and (b) by those who have no special interest in trade, especially in a democratic country[.]

Therefore⁵³⁹ on the whole it is sure that they make for instability.

But since differential taxes against us disturb trade more than absolute, stability might be increased in some directions (though probably lowered more in others) by announcement that most favoured nation clause must be maintained under penalty of official punitive taxes. ^{clxvii}

[dated 4.10.04]⁵⁴⁰

“A Scientific Tariff” for Britain will slightly increase the number of foreign bales which B. gets for each hundred of her own: and diminish her

⁵³⁸ Text written in black pen on a white folio.

⁵³⁹ Written as a symbol.

⁵⁴⁰ Text written in black pen on white folios, numbered pages 1-2.

total exports.

Among her imports manufactures will occupy a less prominent place than before: and therefore there will be a slight fall in the relative values of those of her agricultural products which are subject to effective foreign competition. There will therefore be a slight discouragement to her agriculture: and a slight drift of labour and capital to manufacturers for her own consumption, together with a slight decrease in her exports of crude products, mineral and agricultural.

But these changes will not be very great. She will not be able to manufacture much more than before, and therefore she will not be able to import much more raw material than before. The main change will be that raw material and manufacturing energy will be diverted from producing for exportation to producing for home consumption.

There will be a very slight rise in the general level of her prices: but the corresponding movements of her money wages will be obscure[.]

Her agricultural money wages will not rise, and agricultural real wages will slightly fall. But there will be a slight rise in her manufacturing money wages and incomes generally, while her real manufacturing wages will rise a very little in so far as spent on raw products, but probably fall a little in so far as spent on manufactured.

But all this assumes that the injury done to the viability of her industry and trade by the tariff is a negligible quantity, and if not there will be a fall of real wages.

In any case there will be a fall in the real wages and incomes generally of the trading, transport and professional classes generally.

Trusts and combinations also will be increased; and dumpable manufactured exports will take the place of those which for any reason can't be dumped.

Whether the effect is a little good, a little evil, or (which is possible) a great evil will depend mainly on the action of the tariff on

- 1) the general viability and
- 2) the constructive energy of her manufacturers[.]

Further the supposition that agriculturists will submit to the levying of a tariff on things that they buy and not on things that they sell is not a priori very probable, and finds no countenance a posteriori. Thus we slide back to taxes on all things which can be produced at home: and the only things let in free are tea, sugar & c. But they are so tempting to the Finance Minister that he nowhere keeps his hands off them. ^{clxviii}

*[dated 21.10.11]*⁵⁴¹

A Scientific tariff

Assuming it to be practicable to levy (A) heavy taxes on manufactured products ready for immediate consumption, (B) light taxes on half manufactures with drawbacks on re-export, and (C) no taxes on raw material or those kinds of food and drink or clothing which on the balance materially promote efficiency; then it may be admitted that:

Such taxes will (i) keep the home market for manufactures and (ii) not appreciably diminish the marketability of home produced manufactures in other countries.

That is to say, they will foster industries which are generally I[ncreasing] R[eturn] and also generally of a high order; give a secure market for such industries at home; enable manufacturers to rely on a considerable demand at home even in bad times; and help them to dump abroad with moderation and judgment.

But

(I) (B) is technically impossible in the case of England.

(C) is politically difficult in any country, and especially in England if the Scientific Tariff is to give effective preference to British colonies.

(II) (A) would increase the evil power of large capitals in all directions; and would tend to industrial sluggishness especially by keeping out other best ideas in machines which are in a way a new product of the industries which use them.

(III) (A) would promote fluctuations on the balance

(IV) (A) would promote corruption

(V) (A) would promote the expansion of many low grade manufactures at the expense of some relatively grade lower stage (stage) products

(VI) If a large home market were essential, Belgian manufactures would be nowhere.

(VII) I[ncreasing] R[eturn] is less conspicuous in staple manufactures than in most branches of the publishing industry, and many of the amusement industries, which are mainly

⁵⁴¹ Text written in black pen on blue folios, numbered pages 1-5. The part of the text shown here in bold characters was added to the main text with a different black pen. At the top of the first page a large "5" in blue pencil is drawn close to the title.

confined by natural causes to the home market.

(VIII) Expansiveness of demand is also to be considered in this connection; and so far as Western Europe is concerned, that is generally small in regard to manufactures ready for immediate use, as distinguished from transport facilities and machinery to be used in making for world markets. The demand for ostentation is ever eager; but manufactures do not, as a rule meet that demand as fully as domestic expenditure, buildings & c. This is however a rather fine point.)^{clxix}

[dated 7.9.08]⁵⁴²

Tariffs and manufactured imports

The high continental tariffs do no doubt tend to diminish the importation of finished manufactures into them and therefore especially to diminish their importations from Britain. But that helps B[retain] to undersell them in neutral markets, because (in Market place language) prices are kept lower in B[retain] than in G[ermany]; and in reality (i) finished manufactures are largely agents of production (ii) where not our people get them on better terms than Germans do, and consumption is the goal not “work”: i.e. employment at high wages, not merely wages (iii) we gain viability[.]^{clxx}

[dated 3.4.10]⁵⁴³

“Protection” an appropriate word if applied to nascent industries needs.

It diverts capital and labour from other industries to these (including perhaps some old export industries).

But protection in general is an attack upon export industries for the benefit of those which have to fear competition of imports: provided they do not combine to exploit home consumer

For if they do, then Protection may benefit them, even after they have arrived at a stage at which they could export under free trade, and in which they do export double out of the profits got by dear sales at home[.]

This is one problem: leading up to[.] Does security in home market diminish fluctuations?

Another is combative tariffs in general.

⁵⁴² Text written in black pen on white folios. At the top of the first page is added in normal pencil: “For near end of XVIII”.

⁵⁴³ Text written in black pen on a white folio.

Here, not a question of absolute yes or no: always one of degree. But a fair verdict is most unlikely, because sectional interests are vocal more than general[.]^{clxxi}
*[undated]*⁵⁴⁴

Protection of non-nascent industries

Clark⁵⁴⁵ says: - cut down protective duties to such a level as will help the independent manufacturer, but will not give the trusts profits enough to enable them to undersell him in his own markets at less than cost price. He does not show how an alteration of the tariff would make a great differential advantage of this sort. Anyhow it would be inconsistent with the argument that prodigious tariffs for specified industries give opportunity for expensive experiments. It might however be theoretically possible to select certain industries for high protection which should gradually dwindle to nothing after a time on a plan published in advance[.]^{clxxii}
*[dated 5.11.04]*⁵⁴⁶

We pass to a very different subject. A little while ago most people were inclined to assume that Britain might depend on fairly regular supplies of the most essential foodstuff from other countries during a war, provided her navy retained its preeminence. But the unexpected duration of the present war, and uncertainty as to the outcome of the new struggle between submarines and ordinary ships of war has brought new annuities.⁵⁴⁷

Before the war it seemed clear that the vastly greater purchasing power, in terms of wheat, given by the wages of British workmen over that of the wages of corresponding classes in Germany and other countries with high Protective tariffs on foodstuffs, was too great an advantage to the abandoned, merely on the ground that in a war Britain might be found to restrict her total imports. Comforts and luxuries, and many sorts of raw materials might be in reduced supply: but the necessary quantum of wheat could always be brought in by aid of convoys or other wise. It was urged

⁵⁴⁴ Text written in black pen on white folios, numbered pages 2-4.

⁵⁴⁵ J.B. Clark, *The Problem of Monopoly*, 1904. The book is recorded in Mary Paley's catalogue.

⁵⁴⁶ Text written in black pen on a white folio. In the margin of the page a large "4" is drawn in blue pencil.

⁵⁴⁷ Before the beginning of this paragraph "Line Vacant" is added in blue pencil.

that the rich man's family eats less bread than the working man's, because their appetites are largely assuaged by more expensive foods: and therefore a tax on bread involves an inverse graduation of the burden of taxation in its most extreme form. Stress was laid on the wastefulness of the intensive cultivation by hand labour of men, women and children on the land at home, when much less expense would bring better supplies from land, which only needed to be scratched in order to blossom with grain; for the cost of transport of grain from the centres of distant continents to British harbours had become less than that of casting grain a few miles in England had been a century ago.

It must be confessed that agricultural statistics, however full and carefully analyzed, do not go very far towards an adequate judgment of the influences of a particular tariff policy. Educational improvements have taken a great part in the progress of Germany's agriculture and similar improvements aided by large social developments have enabled some of her neighbours to keep pace with her, without the aid of special tariff legislation. Thus Professor Naumann while admitting that she cannot now, change her policy in regard to agricultural protection argues that the progress of her agriculture in recent years has been at about the same rate as under the more liberal Caprivi⁵⁴⁸ policy: and adds that "comparison with duty free agriculture on Switzerland, Belgium, Holland and Denmark shows that the improvement is at least as great in the duty free countries as in those with Protective tariffs"⁵⁴⁹.

Defence is however more important than opulence. And, although it would

⁵⁴⁸ Leo von Caprivi (1831-1899), German general and statesman, who promoted several commercial treaties.

⁵⁴⁹ [Marshall's footnote:] "*Central Europe*, pp. 226-7.

It will be noted that the point of view taken in the present chapter is that from which human wellbeing, rather than agricultural intensiveness, is seen as the right aim of endeavour. It thus differs from that which is ably set out by Mr Middleton in a paper (Cd 8305) recently published by the Board of Agriculture. It shows that seven million males and eight million females engaged in German Agriculture and Forestry, aided by about six million casual summer labourers from Poland and elsewhere raise a considerably larger part of the necessary food supply than the two million agriculturists of the United Kingdom. No doubt many of those entered in the German list are young, or give only a part of their time to agriculture: and for purposes of comparison their total number may perhaps be reduced to ten or eleven millions. Men, and especially women, can be seen in Germany doing many kinds of useful work in weeding, in tethering cattle one by one with many changes during the days; and so on. The British farmer generally omits such work; because in his judgement, which is of course fallible, it would not increase the yield of his land by as much as can be procured at equal cost from across the ocean [.]”

be unreasonable to use relatively wasteful methods during long years of probable peace in order to avoid discomfort or even some hardship in war time; yet, cereals and perhaps some other of the most urgent “necessaries” of life and energy, in the strict use of the term, are in a class by themselves. Several measures for strengthening Britain’s position during war in regard to them have recently come under discussion. Every one recognizes the importance of increased alertness, and technical knowledge on the part of the farmer, in regard to the improvement of breeds of plants and animals, the rotation of crops, the scientific use of manures, the good and the evil influences of various microscopic organisms: and indeed he has made marvellous progress in these directions in recent years. But beyond these there seems some need for intervention of the State Treasury in view of the present military situation[.]

The State might guarantee a price for all wheat of fair quality; and a price some 5s higher for wheat grown upon recent additions to the area under the plough. In view of the dietary merits of oats, and their suitability for situations that are not friendly to wheat, a similar arrangement might be made for them; and perhaps also for barley. Further, a low premium might be granted on the storage of wheat: that would assist importers to keep stocks of wheat in Britain rather in the countries of origin; and it would give a little more help to British producers than to importers⁵⁵⁰.

Some attention should perhaps be paid to potatoes: though the fifty million tons of them yearly which are attributed to German agriculture, in addition to the twenty million pigs who eat most of them, may suggest wrong notions: for Swedes and c are not counted in addition to the British cattle fed on them.

These and other provisions would draw on the Exchequer and this draft might perhaps be met by small taxes on the importation of grain. But they should be so supplemented by other fiscal arrangements, as to leave unaltered the position of the landowner, save in so far as he directly contributed to the expenses of increased production. The people must

⁵⁵⁰ [Marshall’s footnote:] “Perhaps a premium on all wheat in a store in excess of ten tons, might be granted at the rate of 2s per ton on each of, say, the first Tuesday in January, April, July, and October: that is 8s annually. There would be some large stores owned by Government, or cooperatively by farmers, or by traders in which any one might deposit grain on payment: but a farmer or merchant might apply for recognition of a store house. He might be bound to post a sworn statement on the preceding day as his store, (assumed to be of not less than ten tons) and not to open it on the following two days except in the presence of an Excise officer: Perjury would be severely punished; and therefore only an occasional verification of such a statement would be required.”

suffer by paying more for their food: the Exchequer must not expect to give anything net, and it may lose. The farmer and labourer, who produce more, should gain more. But the landowner should gain only what can be shown to be due to additional outlay on his part for the improvement of the yield of the land.

It seems that the most economical production is on very large holdings; where many workers, supported with the best appliances and direction enable single employer to live in comfort without manual labour: and on small holdings, where every one works with his or her hands. If this is the fact, some account of it might be taken in the adjustment of taxes on agricultural land.^{clxxiii}
[dated 3.12.08 and undated]⁵⁵¹

6. The profits yielded by a national monopoly in production are not governed by the same causes as those of a private monopoly; and they are not amenable to the influences of taxation in the same way: but they have peculiarities of their own.

Producers and merchants who have a very valuable connection in a foreign market are likely to be concerned with things for producing which their own country has some *relative* advantage *sufficient* to give her a strong preponderance, *in exportation*. They are generally eager to retain a lucrative market for their goods, and the importing countries may be in urgent need of them: thus there are present two conditions which, as we have seen (above Section 34)⁵⁵² call for the careful attention of finance ministers at either end of the trade.

But further the exporters are not unlikely to arrive at a common understanding, and perhaps even a formal association (or cartel) for the regulation of the supplies in any market in such manner as to secure high aggregate profits. Profits of this kind appear eminently liable to be annexed by the finance minister. There are many difficulties in the way of such an attempt in regard to domestic trade: but export duties on home products and import duties on foreign products have great attractions when they have any touch of national monopoly. The problems thus arising will

⁵⁵¹ Text handwritten in black pen. The text is very much amended, with several changes, corrections and additions. The folios are numbered in blue pencil; in blue pencil are also added some notes.

The date is written in red pen together with some asterisks on the first page, the only one not numbered, which is bound together to the rest of the pages (but could be separated).

⁵⁵² Text deleted: "saw just now (III, xiv, 2)".

occupy us much in the next two chapters: but the present seems the appropriate place for inquiring into any peculiarities there may be in the shifting of the burden of such taxes.

The term “national monopoly” indicates a power of producing a certain thing, which is indeed confined, more or less, to a single country; but is shared by at all events a very large number of her inhabitants, and is within the reach of almost anyone. Thus South Africa has a partial national monopoly of ostrich feathers: ostriches are to be found elsewhere, but they are not bred on a large scale except in South Africa; and almost any number can be raised there. The production of ostrich feathers for the world’s market is therefore competitive in this sense, that if the demand for them were so to increase, as to hold out a promise of abnormally high profits to the ostrich farmer, their supply would be quickly enlarged till ostrich farming no longer offered higher rewards than other occupations of the same difficulty in the same place.

Trade in such things has many peculiarities. The exporters are generally eager to retain a lucrative market for their goods, and the importing countries may be in urgent need of them: thus there are present two conditions which, as we saw just now (III.xiv.2), call for the careful attention of finance minister at either end of the trade.

On the other hand, a special tax on ostrich feathers, whether levied on their export from South Africa, or on their importation into other countries, may be said to fall ultimately on the foreign consumers. The ostrich farmers would indeed find that they could not sell as many feathers as before on terms that would give them their old full profits, after the duty had been paid. Their profits would therefore fall heavily for a time: and ostrich farming would be checked until the supply of feathers had been reduced so far that the profits yielded by that industry were again on a level with those of other industries of equal difficulty and incidental advantages and disadvantages in the same place. And if that rate of profits would be the same as their old rate, then the whole burden of the tax would be thrown upon the consumers. This is true in the main. But it is not absolutely true. It might not be absolutely true even if ostrich feathers were not a national monopoly. For even in that case the tax would have pressed some labour and capital out of that industry into others which might not be able to absorb them without some lowering of remuneration; and therefore the general line of earning of labour and profits on capital throughout the country might have been very slightly lowered by the tax in any case. But ostrich farming being a national monopoly is a little more likely than ordinary industries are to give an exceptional value to farms, which are specially suited for it by soil, climate and situation: and also to afford

exceptional remuneration to those who have the special aptitudes and instincts required for handling ostriches well and improving their breed. No doubt these exceptional values are of the nature of private rather than national monopoly; and their counterparts exist in all classes of industry: but they are likely to be rather more prominent in industries that are national monopolies than in others. The high gains to be got in ostrich farming are among the lodestones which attract labour and capital to South Africa; and if they were impaired the average remuneration of labour and capital there would fall a little towards the levels that obtain in countries that have more limited resources. Therefore, though the monopolist element in the value of ostrich feathers may enable them to carry easily a considerable tax, it also tends to make the new level to which other remuneration of labour and capital would rise again in the ostrich industry after the disturbance caused by the tax had passed, lie a little further below its original level than it would otherwise have done.

All this is true whether the tax be a South African export tax, or a foreign import tax. But for the present let us take it to be an export tax. Such a tax would be the more advantageous, the smaller the shrinkage in the exportation of South African feathers that would suffice to raise their value considerably in foreign markets: that is the more rigid the foreign demand for ostrich feathers, and the less effect a rise in the value for which they could be sold in foreign markets had in increasing the supply of them from other parts of Africa and elsewhere. If the exportation of the feathers was but little diminished by the tax, it would return a considerable revenue to the South African exchequer almost wholly at the expense of the foreigners. And though, if improved suddenly, it might press hardly and even unfairly, on those who had invested their labour and capital in the ostrich industry, this objection would not lie heavily against a tax that had begun at a low level and risen gradually. Still less would it lie against an old standing tax.

And indeed, when once well set up, export taxes on national monopolies or even preponderances in mineral products and in those agricultural products which owe most to large ownership of land, are often held to be specially fitted to be laid under contribution for the public welfare. For the rights of private ownership which they turn to account have frequently acquired a high value very rapidly under the influence of economic evolution, to which the whole population have contributed in varying degrees. Those rights are apt to be the cause of some jealousy to those engaged in industries to which no such good fortune has come: and the demand that their properties should be made to contribute somewhat largely to the general expenses of the State is likely to be regarded as

reasonable even by many of those who are specially affected by the tax. If then the monopoly is so firmly established that the export duty on its products is likely to bring in a goodly revenue for a long time, the tax may be highly advantageous.

But the case is very different with monopolies that are partial, and are based on evanescent advantages. For then the tax greatly hastens the growth of effective rivals; and the flow which its first imposition gives to the industries connected with it is followed by a continually increasing stint of its foreign vent. Thus the total injury to those industries is likely to outweigh the short gains that the State can derive from the tax.^{clxxiv}
*[undated]*⁵⁵³

Upshot[.] Protection to agriculture

Agriculture more than any other industry needs stimulus by constriction not by exclusion of competitive sources. It is not generally possible to adopt the localization of “furnace of drought” plan, which answers in regard to a particular branch of industry as in regard to, say, beets: because of the coherence of composite products (rotations) and the local variations Education of the farmers and University experiments are the great things[.]^{clxxv}
*[dated 24.1.11]*⁵⁵⁴

Temporary taxes, and especially temporary import duties,
 disturb trade when imposed.

keep people hanging about uncertain whether to modify
 their business or not
 disturb trade again when taken off [.]

Are badly levied while in existence and altogether cause a maximum of harm in proportion to revenue brought in to the state.

Import duties if levied suddenly, they exploit the foreigner. But a country which has a reputation for such tricks will pay dearly for it.

Hence for emergencies seek direct taxes, income, death & c. and augment old taxes; don't start a lot of new ones.^{clxxvi}

*[undated]*⁵⁵⁵

⁵⁵³ Text mainly typewritten on large white folios, numbered 23-26 and in red pen BF 20-BF24. The additions to the main text, in black pen, are shown in italics here.

⁵⁵⁴ Text written in black pen on a blue folio. Drawn above the text is a large asterisk in red pen.

⁵⁵⁵ Text written in black pen on a white folio. At the top of the page is added in red

1.2. Distributive and employment effects of Protection

However much a country is “protected” it must obtain some foreign products; and (unless it can get them entirely as payments of interest etc for previous exportations), it must export some things for them. Then exports must be forced, until they actually do get the needed imports. That is the protected country will – to this extent – hold her own in foreign markets.

But if her products are only such as others can supply, that is, if she is competing without any special advantage, she will get back only as much of foreign products for each bale of hers (both delivered at the foreign port) as other countries do. That is she will have to pay any excess which has over cost of double carriage + tariffs have over those of competing countries.

That is the foundation of the doctrine that the consumer pays tariffs. It is true in so far as the country to which the consumer belongs has to buy some of her products with exports in which she is at no great advantage.

So far as this goes, she strengthens her position very much by speaking up a power of drawing goods from abroad without pushing exports as to which she has no special advantage.

This is specially important in the case of England.^{clxxvii}

*[undated]*⁵⁵⁶

Sectional interests

If a tax is imposed on the importation of things which are consumed exclusively by the rich, and which are produced almost exclusively by labour (the use of machinery and other expensive plant being but slight; while they do not much raise rent), such a tax would benefit the working classes. But you can’t get such a tax: and attempts to do it would injure the rich much more than a direct tax.

T.R.⁵⁵⁷ proposals in fact go in the opposite direction.^{clxxviii}

*[dated 20.5.10]*⁵⁵⁸

pen: “These disturbances by home import duties are much greater than those caused by duties levied in any other country (unless she happens to be practically the sole market)”.

⁵⁵⁶ Text written in red pen on white folios, not numbered.

⁵⁵⁷ Presumably referring to the Tories or the Tory party.

⁵⁵⁸ Text written in black pen on a white folio.

Incidence of import duties

But in a broad view we may consider that the case of import duties in general is represented fairly well by duties which are levied on the importation of things that cannot conveniently be produced at home, at all events in greatly increased quantities; such as tea or wool imported into western Europe, or fine manufactures imported into backwards countries. Less potent in their influences on the terms of international trade than these, (see III, xvi, 2) are balanced duties, import and excise, on things of which the home product stands on about equal footing with the imported product. Such taxes diminish the country's demand for imported goods, and turn the rate of interchange in her favour: but their influence in these directions is less than that of taxes on things which cannot be produced at home; and is indeed often almost imperceptible. On the other hand Protective duties on things, the home production of which can be greatly increased, act more strongly on the rate of interchange, so far as the goods affected are concerned than do taxes on goods which cannot be produced at home. For in the latter case the tax affects the whole supply, and the consumer can avoid it only by diminishing his consumption; whereas if the tax falls only on the imported part, its chief result may be to make consumers greatly lessen their consumption of the imported part, while increasing their consumption of that which is produced at home. Their demand for imports of the commodity will therefore be more elastic and may be made more elastic than for a similar thing which cannot be obtained except by importation.

Most intense of all may be the effects of Protective duties which press unevenly on the imports from different countries. There are conditions indeed under which such taxes may do little more than change the course of trade, without altering terms: but there are also conditions under which its effects on the value of those imports to which it is most unfriendly, may be very severe. These effects however seldom last long: the country whose industries suffer can generally mould her industries to as to escape the severest pressure: and she can generally retaliate.⁵⁵⁹

Leaving then the special intricacies of Discriminating duties out of account, we may assume their effects to resemble those of duties on things

⁵⁵⁹ Text deleted at this point: "Retaliation is full of episodes, but seldom of much else. The higher and larger aims of a Protective tariff in favour of those higher industries of a country which have not yet developed their latent resources on an equal footing with their foreign rivals is incompatible with the rapid strategy and shifting tactics of combative duties taxes".

which cannot be produced at home, except in that their pressure on foreign producers is generally rather more intense, and the primâ facie benefit which they confer on the country by causing certain things to be given to her in bond on terms more favourable to herself is rather greater; though the increased aggregate charge which the taxes inflict on the people as consumers is generally very much greater in proportion to the Revenue which they yield to the State, than in the case of non-Protective duties. On the other hand they benefit certain sections of home producers: the nature and limits of this benefit have already been indicated, but will need much further study: at present they also must be left out of account.

With their introduction, let us proceed to the representative case [.]^{clxxxix}
[undated]⁵⁶⁰

Industrial adjustments after Protective tariff

In 1879 began an alliance between agrarians and several groups of manufacturing industries for Protection: who suffered? Answer prima facie (1) all fixed money income receivers (2) all wage-receivers outside of the booming industries (3) all the rest of the population.

But in fact some classes, especially urban building industries could take very good care of themselves: and in the long run the development of T.Unions, accelerated by the necessity for keeping money wages on the move, prevented any considerable loss to any large class who would assert themselves.

Probably Professional people suffered most, together with Peasant Proprietors whose saleable products were not affected by the tariff. After them came probably rural workers (who might have come higher, had they not been depended by the scarcity caused by migration to the towns) and the more helpless sorts of town workers.

Try to verify.^{clxxx}
[dated 14.12.10]⁵⁶¹

Upshot

Moderate Protection lowers real wages a little[.]

High Protection lowers real wages a good deal

⁵⁶⁰ Text written in black pen on white folios, numbered in blue pencil pages 95-100, and bound to a blue folio on which is written in black and red pen: "23.9.11 Incidence of import duties. Ye Summary of Ye summary chapter of B As it was originally".

⁵⁶¹ Text written in black pen on white folios.

especially if the duties are imposed chiefly on goods consumed by the wage earning classes.

But as a rule tariffs have less influence on national income than a great improvement in any one of the following

- 1) energy and ability on the part of wage earnings
- 2) energy and ability on the part of superior strata of industry
- 3) capital applied to transport and other branches of industry which are not easily satiated
- 4) modes of using income including domestic economy, temperance, avoidance of gambling and above all domesticity[.]

Therefore⁵⁶² compare UK's progress with that of France or of other Anglo Saxon countries not with that of Germany, which has made so great a revolution in 1 and 2[.]^{clxxxii}
*[dated 5.6.09]*⁵⁶³

What a tariff really might do is to tax rich men's luxuries.

The objection is technical. It would be easier to take an equal sum from them by income tax or property tax & c.

If it were true that imports were mainly of rich men's luxuries then it might be true that imports obtained as interest on investments abroad (assuming those to be allowed by rich) tended to diminish the amount of (high waged) employment.

As it is these imports are our chief safeguard against being worsted in foreign trade, by foreign tariffs or otherwise. For they must send us so many goods on that account that their goods can never become very scarce; and therefore⁵⁶⁴ have very high exchange value in terms of ours. We are sure of getting all those things for which we have an urgent demand.^{clxxxiii}

*[dated 13.2.07]*⁵⁶⁵

Complexity of protection and Smuggling of exports

It has already been observed that prohibitions or duties on the importation or exportation of different commodities were largely frustrated by the

⁵⁶² Written as a symbol.

⁵⁶³ Text written in black pen on a blue folio. In the margin of the page is added in red pen: "For end of III B with reversion to end of IIIC or IV. 12.9.11"

⁵⁶⁴ Written as a symbol.

⁵⁶⁵ Text written in black pen on a white folio. The page number "95" is deleted.

activity of the smugglers. That rough but enterprising race of people earned a living by making trade more fluid than it otherwise would have been: but the English public had to pay the costs of both sides in the incessant war between them and the customs house officers. As a rule, however, the smugglers could not afford to carry anything that would not sell at a high price in proportion to its bulk. Consequently while they befriended the English consumer of silks and lace and choice brandy, they did little to return the labourer from the pressure of taxes on his food.

Again it did not answer to export prohibited machinery of such kinds as were already well known on the Continent and manufactured there. But there were good earnings to be made by exporting a machine or a drawing of a machine which converged to foreigners some important idea which foreigners were specially anxious to obtain. So English manufacturers of textile machinery saw the large profits which might have been theirs go to build up rival works on a large scale abroad, who received from the British Government an efficient Protection, without being seriously hindered to obtain a piece of British machinery for themselves.⁵⁶⁶

So if say cotton spinners are a cast; then their being able to sell abroad in return for large foreign products, tends to make them force those products on the general home market at a slightly lower rate of exchange for other home products and services than if the supply were small.

But as foreign products are various, and the demand for many of them is elastic, that comes in practice to hit little. Practically it would not be a matter of general concern to the nation that cotton spinners were rich; except indeed in so far as that made them cargo tax payers[.]^{clxxxiii}
[dated 24.3.04]⁵⁶⁷

“Protective” Duties

It used once to be generally believed that a country diminished the employment open to her people, when she imported goods of a kind which she could herself produce without difficulty: and indeed cases frequently occur in which particular industries are injured, for a time at least, by the importation of goods of a kind for which their skill and appliances are adequate. Some industries of Rome, when she had become mistress of

⁵⁶⁶ This part of the smuggling trade was carried on, at a regular rate of insurance, with ordinary ships. Details are given in the *Report of the Committee on the Exportation of Machinery* of 1841.

⁵⁶⁷ Text written in black pen on white folios. At the top of the first page is added in red pen “Extended from I vi”; in the margin of the last folio is added in red pen 22.4.07” together with an asterisk in blue pencil.

nearly the whole of the civilized world suffered from the importation of some classes of fine goods from older seats of civilization, which had been brought under her dominion: and as most of these goods came in the form of tribute, there was very little demand for exports in exchange for them. Similarly a man, who lives on income derived from the rent of his land or from stock-exchange securities may complain of lack of occupation: while, without any effort of his own, he enjoys the fruit of much labour[.] Those who possess the skill or the plant adapted for the production of any class of goods, may reasonably dislike the importation of similar goods; and they may desire to restrain it within a narrow compass by import duties, or otherwise; but, as a general rule, the resulting transference of employment from those industries which work for exportation to those which work for home consumption, would yield no net gain: while the population generally would suffer from obtaining a smaller supply of the things which they most desired to consume[.]^{clxxxiv}
*[undated]*⁵⁶⁸

[...] duties meet as a rule no such organized and well informed, but strongly biased opposition as awaits those export duties which threaten to press heavily on particular industries. On the contrary those who can speak with the most intimate and expert knowledge in regard to the home industries most nearly affected by an import duty have in the majority cases an inevitable bias towards overrating the benefit of the duty; and towards underrating the evils, and especially the indirect evils to consumers and to other industries which will result from it. It may indeed happen that the import which it is proposed to tax is an important material or implement in some industry; and then the case against it may be set out with nearly as much expenditure of energy, of expert knowledge and of money as is the case for it: and in consequence of their political reasons, together with some more or less solid economic reasons, import duties on raw material are generally out of favour; while import duties on implements to be used in production occasionally meet with effective opposition.

Consequently it is not surprising that, while no industrial country has levied nearly enough export duties to have any considerable effect in

⁵⁶⁸ Text written in black pen on white folios, not numbered. At the top of the first page is written: "Criticism of argument that hindrances to importation tend to increase general demand for labour"; added in normal pencil: "to be rewritten and rearranged".

narrowing its trade, a great many countries levy so many heavy import duties that their foreign trade is much narrower relatively to their population than it would be if their ports were more accessible to imports. And therefore there is a substantial interest in the question whether the effect exerted by a country's duties in moving the terms of foreign trade in her favour is likely to be increased more than in proportion by an increase in the number, breadth and intensity of those taxes. It is not one to be dismissed lightly as was the similar question relating to export duties. ^{clxxxv}
[undated]⁵⁶⁹

I.T. Competition and wages. Webbs position

Of course bounties to an industry tend to enable it to sell more of its products at home and abroad, and so far as lessen the demand for the products of other export industries. And if those bounties are obtained by general taxation, and the industry is not one which needs "input protection" the result is unjust for the time and mischievous in the long run. But if the "bounty" comes in the course of nature: if, for instance women deprived of their old household occupation take to making things for export and for home use, and make them cheaply: then

- (a) there is a corresponding increase of Nat[ional] Div[idend]
- (b) workers in other trades, get these thing[s] cheaply, in so far as they want them
- (c) other export workers are no more injured than they would be by the discovery of rich mines of some product not used in their own industry. Webb's principle would lead us to prohibit sale of all bye products[.]

In so far therefore as the Webbs would stop such industries; or again those of Prison labour (though it is true that there are side issues here, and the example does not present a clear issue) they are wrong. If light mill work can be found which married women are willing to do for 3d an hour because⁵⁷⁰ it is clean and can be dropped for a day without loss, that is all to the good. Parasitic idleness is as good a term as parasitic industry.

In so far as errand boys, or cotton piecers, brought up at the expense of carpenters or iron founders do uneducating work and receive pay which

⁵⁶⁹ Text written in black pen on a white folio. In the archive the page is bound together with a blue folio on which is written in red pen: "8.9.10. Eject from III xiv on misleading influences of expert evidence in regard to export and import duties".

⁵⁷⁰ Written as a symbol.

because it does not give education is really less than sufficient to pay its share of their rearing (the Webbs say such cases are common: I am sure their facts are wholly wrong, but that is a side issue) the nation suffers much: but only because their later efficiency is low. For the time there is no loss: and the Webbs are wholly wrong again[.]

But in so far as the docker under the old system or the “sweated” clothes trade were encouraged to a shiftless life, which indirectly caused increased poor rates, paid partly by artisans, the other workers had a grievance. The labour of the dockers, was not really cheap; but if it had been it would have actually aided those who worked in export industries: but this again is a side issue. The sweated clothes trades are a good case.

But after all this is like urging that small fox should be eradicated because pock marked furs are not elegant. The real argument against parasitic trades of this class is so strong that this little one adds nothing perceptible to it.

The pages of ID [Industrial Democracy] which more bear on this are (1) those which deal with parasitic trades generally. The discussion 780-3 which is inconsistent with itself, being partly “classic” and partly fallacious; and especially pp. 780-1. And above all the appendix on the Free Trade controversy which I have not read through (29.8.01) but which has seen to be rich in examples of popular fallacies.

There is a good deal more of fallacy about IT in the book; see references in its Index under Foreign Trade. ^{clxxxvi}
[dated 29.8.01]⁵⁷¹

2. Preferentials, Differential and Combative Tariffs

2.1. Preferentials

Preferential taxation if interpreted to mean “uneven” taxation a raising of tariffs against all but favoured nations, is like local taxes e.g. on hops or the use of water for chemical works & c. In its first incidence it may strike those who have made their plans for it in any locality, even if they could get away from that locality pretty quickly. But in the long run it strikes the trade heavily only if is in so many localities as to make it difficult for the trade to find rest for the soles of its feet outside the heavy rates. The same is true of uneven taxation.

.....

⁵⁷¹ Text written in black pen on white folios, numbered pages 1-4.

*The policy of taxes on imports which discriminate in favour of particular sources of supply*⁵⁷²

Systems of taxes, which admit the exports of one country to another at specially low rates are, somewhat inaccurately called Preferential. Such concessions are generally arranged in pain by bargaining and mutual concession.

A new Preferential system may raise or lower the average level of taxes on imports: in the one case it would be a movement towards Protective policy and in the other towards Freedom of trade. Preferential arrangements between Britain and the Dominions make generally towards Protection so far as she is concerned, and away from it so far as they are concerned: because their present tariffs are highly Protectionist and hers are not. Preferences sometimes, merely changes the courses of trade, without affecting values perceptibly; sometimes they greatly benefit some interests and injure others. For instance if (say) Holland were to levy a special tax on wheat from Argentina, the only result would be that Argentine wheat would avoid Holland, and would displace a little Russian and Canadian wheat from the markets of other countries. No appreciable Revenue would accrue to the Dutch Exchequer from the tax: her consumers would get their wheat on the same terms as before: Argentina would not be appreciably injured nor would Canada and Russia be appreciably benefited. Even if the special tax on Argentine wheat were levied by such a large consumer as Britain the result would be somewhat similar: for so long as Argentina could sell her wheat to Europe, under no heavier duties than are levied on wheat from other sources of supply, she could market the whole of her exportable crop on practically the same terms as if Britain had not differentiated against her. Britain would obtain her supplies from countries whose wheat she did not tax: her Exchequer would gain little; her consumers and producers would not be appreciably affected.

If Britain and her Allies gave a Preference to wheat produced within the Alliance over others, the Central Powers of Europe would draw most of their external supplies from Argentina and the United States: the extension of German influences in North and South America would be facilitated; but no great direct economic changes would be effected, unless the import duties imposed by Britain even from the more favoured sources were sufficiently high to increase greatly the produce of her own soil. The responsiveness of Canada's yield of wheat to an increase of demand for it depends only in part on the extent of fertility of the land. It is greatly influenced also by the rapidity with which railways are built, and

⁵⁷² This subtitle was written on a blue folio.

additional population attracted, in view of increased agricultural prosperity; and therefore it is not unreasonable to regard her agricultural industry as one of Increasing rather than Diminishing Return. This opens up large questions, which cannot be treated here: but it may be said briefly that the ultimate incidence of Preferential duties is not governed so much by the relative sizes, economic strengths, of the several countries concerned, as by the elasticities of their several industries. It therefore does not fall within the scope of any arithmetical calculation: its subtleties can be grasped only by aid of a throughout study of the physical, technical and human factors of the problem; and even then its solution must be partly instinctive, and wholly diffident[.]

So far countries have been regarded as units. But in fact a chief cause of trouble in all tariff arrangements is that they are likely to affect different parts of the same country unevenly. A hint has already been given by France that a scheme, which prompted Germany to restrict her exportation of coal to the iron districts of Eastern France, would be open to grave objection. British Preference in favour of Canadian wheat, which would be of great value to the central provinces of the Dominion, would be useless to those on the Pacific Coast: and if the existence of such Preference tended to make the United States unyielding in matters of interest to the whole Dominion, there might result some friction between West and East, which would react on the relations of the Dominion to the Empire.⁵⁷³

The recommendation of the Paris Conference of July that the parties to it should "render themselves independent of the enemy countries in so far as raw materials and manufactured articles essential to the normal development of their economic activities" is so qualified by later clauses as to leave each country complete freedom as to the nature and considerable freedom as to the extent of its measures for this purpose.

But yet this position does not seem altogether satisfactory: for there are scarcely any exports of raw materials, other than coal from the enemy countries which the Allies could not easily forego: but some German manufactures are of great importance to several of Britain Allies and to her Dependencies; while they in return derive some benefit from the market which she offers for raw products. Therefore a chief effect of this recommendation, if thoroughly carried out, will be to supplant German manufactures by some of the Allies, and in a less degree by those of the United States and other neutral countries: but Britain is likely to gain most of all, because of her intimate relations with her Dependencies.

⁵⁷³ Added after this text, in blue pencil, "Line vacant".

The German charge against her, that she organized the war in the interests of her own industry and trade, is not likely to gain any credence. But the haste with which some of her people, not wholly without official support, have seized on the war as an opportunity for capturing Germany's trade, has tended to lower the esteem in which she is held by thoughtful neutrals. It was not unjustifiable: but its haste and eagerness seemed to suggest that Britain is more anxious to appropriate the results of Germany's scientific and commercial ability and energy, by analysing her products, than to add Germany's constructive faculties to those in which she herself is already preeminent.

Britain's Allies can speak for themselves at every International Conference. Canada, Australia and South Africa can, in various degrees keep themselves acquainted with what is going on, and cause their opinions and wishes to be communicated to British Representatives at a Conference. But the population of India and the crown colonies have little say in the matter. India's trade with Germany is very important to her: Britain is bound to consider India's interests rather than her own in all negotiations about it. The trade in Canada's nickel; and Australasia's tungsten, hitherto largely in German hands, can be controlled in accordance with the wishes of those Dominions. But Bismarck's great export trade in tungsten, and that of Britain's numerous Crown Colonies in their various specialties, raise ethical rather than economic problems. If on the whole it seems right that any of them should be solved with dominant reference to Imperial exigencies rather than to local advantage, then some compensation should be made in other ways.

Some of the arguments, on which representatives of old British industries are basing claims for Protective duties in their own favour, tell even strongly for granting Protection to the cotton manufacturing and some other interests of India. It has often been said, and perhaps with truth, that the greatest political achievement in the history of the world, has been the upright and unselfish administration of India by Britain. For two generations it has been clear that some of the pleas of Indian industries for Protection were far stronger than any which could be put forward for British industries. Exigencies, partly created by the war and partly made prominent by it, have furnished some new arguments in favour of a limited Protection to a few industries: but if even a sort of approval were given to the immoderate claims put forward in some of the answers of representatives of great industries to a recent circular of inquiry issued by the London Chamber of Commerce, and all Protection were withheld from India's industries, Britain would in effect abdicate her great place as ruler of India in India's interests. If she did that India, would not be likely long

to continue to turn a deaf ear to those who urge the “Munro” claim: “Asia for the Asiatics”.

And there is something more. It is an old saying that war creates friendships, and peace tries them. During the war all, who have been working together have been prompt to suppress minor differences: each has been willing to believe that others were doing their best, and has not used to inquire whether the balance of give and take was nicely adjusted.⁵⁷⁴

*But another old saying warns us that business negotiations among relatives and friends are dangerous. In negotiations with strangers, every one is apt to estimate his “fair” claims at points higher than seem reasonable to the other side; but he generally accepts, without much rancour what he can get. On the other hand he thinks that a relative ought to be at least “fair”, if not generous, in his dealings: so, when relatives bargain, each is apt to expect more than he could get from a stranger; and each has some feeling of grievance if he is disappointed. No task could be more difficult than that of deciding what Preferences as regards import duties given by one member of the British Empire to another, are a fair equivalent for those given in return: and on this ground, if on no other, there are good reasons for hoping that no Preferences will be arranged after the war, as affaire of business. Any argument that promotes intimacy among the various members of the British Empire and her allies: and anything that draws more closely the bonds of a common sentiment that unites the British Empire with Britain’s first great colony, will be wholly to the good. It will make for peace and stability, and tend to prove to Germany that the world has outgrown the stage at which an aggressive policy is likely to prosper.^{clxxxvii}
[dated 3.12.08 and undated]⁵⁷⁵*

Preferential duties à la Caillard⁵⁷⁶

Of course if we could get free trade throughout the Empire secured, it

⁵⁷⁴ Before this paragraph “Line Vacant” is added in blue pencil.

⁵⁷⁵ Text mainly handwritten in black pen and partly typewritten (shown here in plain type) on white and blue folios. The text is very much amended, with several changes, corrections and additions. The folios are numbered in blue pencil pages 104-140; some notes are also added in blue pencil.

The date is written in red pen together with some asterisks on the first page, the only one not numbered, which is bound together to the rest of the pages (but could be separated).

⁵⁷⁶ In Marshall’s private library catalogue (written by Mary Paley) the following book is recorded: Caillard V.H.P., *Imperial Fiscal Reform*, 1903.

would be a good thing for UK in the long run; though if met by strong duties in foreign lands, it might be very costly in the long run. He says his scheme is workable only on the supposition that the Empire could be practically self-sufficing (within a moderate period) p. 111 he says “at an approx equal cost”.

This is probably the greatest stumbling block in his way. His reasonings need to be supplemented by such considerations as: -

1. Have our colonies shown any sign of pioneering either in US fashion or in German? If self contained would not the Empire be for a very long while, and perhaps for ever, beginning to use appliances and methods which USA and Germany were beginning to discard?
2. Would not the total market for the most advanced wares offered by the Empire be for some centuries, if not for ever, much smaller and poorer than that offered by the outer world; from which we might reasonably be cut off, if we count in for doing without them[?]
3. Is not the supply of people and capital in colonies & c. needed for supplying UK’s need of raw material and food too small for the work unless (a) there be a large immigration into them, and (b) the colonies are content with industries that (i) have no conspicuous I[ncreasing] R[eturn] tendency and (ii) give no scope for various industrial faculties? Is not the growing loss of town life in the colonies a strong indication that (b) is not to be expected? In other words ought he not to assume D[ecreasing] R[eturn] as a basis throughout; and is not his repeated assumption that the tax will cause only a temporary rise in (real) price wholly unjustified?
4. Is not the balance of advantage economic and social against such a seclusion of a portion of the Anglosaxon race, from the point of view of later generations as well as the present? Is not the evil fairly certain, and the hoped for good very improbable?^{clxxxviii}

[dated 19.7.08]⁵⁷⁷

Economic and political consideration in regard to Preferential taxes

“Preferential “ arrangements in fiscal policy are generally matters of bargaining: sometimes they tend to the expansion, sometimes to the contraction of the area covered by Protective policies. They often lead to

⁵⁷⁷ Text written in black pen on white folios, numbered pages 1-4.

bickerings, partly because either side is apt to expect much greater advantage from them than is actually realized. They often merely change the courses of trade without affecting values perceptibly. For instance if (say) Holland were to levy a special tax on wheat from Argentina, the only result would be that Argentine wheat would avoid Holland, and would displace a little Russian and Canadian wheat from the markets of other countries. No appreciable Revenue would accrue to the Dutch Exchequer from the tax: her consumers would get their wheat on the same terms as before: Argentina would not be appreciably injured nor would Canada and Russia be appreciably benefited. Even if the special tax on Argentine wheat were levied by such a large consumer as Britain the result would be somewhat similar: for so long as Argentina could sell her wheat to the Continent of Europe on equal terms with wheat from other sources of supply, she would send little or none to a market which differentiated against her. Britain would obtain her supplies from countries whose wheat she did not tax: her Exchequer would gain little; her consumers and producers would not be appreciably affected.

If Britain and her Allies gave a Preference to wheat produced within the Alliance over others, the Central Powers of Europe would draw most of their external supplies from Argentina and the United States: the extension of German influences in North and South America would be facilitated; but no great direct economic changes would be effected, *except in so far as* the import duties imposed by Britain, even from the more favoured sources, were sufficiently high to increase the produce of her own soil.

The responsiveness of Canada's yield of wheat to an increase of demand for it depends only in part on the extent and fertility of her land. It is greatly influenced also by the rapidity with which railways are built, and additional population attracted, in view of increased agricultural prosperity; and therefore it is not unreasonable to regard her agricultural industry as one of Increasing rather than Diminishing Return. This opens up large questions, which cannot be treated here: but it may be said briefly that, the ultimate incidence of Preferential Duties is not governed so much by the relative sizes and economic strengths, of the several countries concerned, as by the elasticities of their several industries: and therefore does not fall within the scope of any *simple* arithmetical calculation.

But yet the general rule holds good that a tax on the importation of, say, wheat into any country, which falls with but light weight on supplies coming from favoured sources, will bring in scarcely any Revenue if those sources can meet easily all her requirements. If they cannot do that, then the price is raised to the level needed to attract supplies from other sources, with the result that the taxing country must pay a very greatly

*increased price for her wheat, while the Revenue which her Exchequer derives from it is not great. Much of the tax goes to remunerate [...] ^{clxxxix} [undated]*⁵⁷⁸

6. No general statement can be made as to the effects of the mitigation of a Protective duty on wheat by a Preferential exemption in favour of imports from certain sources. Under some conditions, the higher duty will be inoperative; the course of trade will be changed, but the Preferred sources will gain no considerable benefit. Under other conditions it will be much more onerous than a simple Protective duty to the country than given the Preference

A preferential exemption from a part or the whole of an import duty is generally described shortly, but not accurately, as a Preferential duty. Such an exemption from an already existing duty tends to open the door a little wider to external trade. But when in order to grant a Preference to some countries additional taxes from which they are exempt are imposed on goods imported from other countries; the movement is one side the introduction or increase of Protection to particular home producers against a great part of the competition from abroad, which they find inconvenient. Many of the effects of the introduction of Preferential policy are therefore entirely uncertain until it has been ascertained whether it will be so applied as to lower the average level of her import duties, or to raise them. But yet something may be said broadly on the subject[.]

The results of a Discriminating or Preferential duty levied on the supplies of a thing to any country may vary between extremes that are very wide apart. If the product is standardized and indifferent as to the market it seeks and the taxing country offers only a small part of the world demand for it, the tax will merely change the course of trade without appreciably affecting values. If for instance Holland were to levy a special tax on wheat from Argentina, the only result would be that Argentine wheat would avoid Holland, and would displace a little Russian and Canadian wheat from the markets of other countries. No revenue would accrue to the Dutch Exchequer from the tax: her consumers would get their wheat on the same terms as before: Argentina would not be appreciably injured nor would Canada and Russia be appreciably benefitted. Even if the special tax on Argentine wheat were levied by such a large consumer as Britain the result would be very similar: for so long as Argentina could sell her

⁵⁷⁸ Text partly written in black pen (here in italics) and partly typewritten on large white folios not numbered.

wheat to the whole of the coast of the continent of Europe under no heavier duties than are levied on wheat from other sources of supply, she could market the whole of her exportable crop on practically the same terms as if Britain had not differentiated against her.

Britain would obtain her supplies from Russia, Canada, Australia, and India, whose wheat she did not tax. Her Exchequer would gain nothing, or next to nothing: her consumers and producers would not be appreciably affected.

In fact such a differential tax might be less injurious to Argentina than a similar tax on all wheat imported into Britain, even though Britain's wheat area is narrow. And it would certainly be less injurious to Argentina than such a general tax would be if Britain's wheat area were capable of a great and easy expansion: for in that case the price of wheat in the markets of the world, including Britain's bounded warehouses would be reduced⁵⁷⁹[.] On the other hand Argentina would be greatly prejudiced by taxes differentiating against her wheat, if levied simultaneously by all the chief wheat importing countries. She would then probably be compelled either to direct a great part of her energies to the production of things other than wheat; or else to bear nearly the whole burden of those taxes herself (save perhaps in a very exceptional harvest year in which all other chief sources of wheat supply have run short).

It seldom happens then that a single country can greatly injure another by differentiating against imports of staple produce from her. But if a country's discrimination is exclusively in favour of one other country, whose exports of the produce are on a smaller scale than her own imports, the benefit conferred by that Preference may be very great indeed. Let us work out this contrast. If Holland, whose imports of wheat are not very large, WERE TO IMPOSE A HEAVY DUTY ON ALL WHEAT, EXCEPT WHICH CAME FROM ARGENTINA, THE ONLY RESULT WOULD BE THAT ALL OTHER

⁵⁷⁹ [Marshall's footnote:] "The phrases in the text are broad. If details were examined narrowly it would be found the incidence of a tax by one country discriminating against an import from another would depend a good deal on her geographical position. For instance a differentiation against Romanian wheat in Italian ports would be more burdensome to Romania than a similar differentiation by an importing country of equal rank in the North Atlantic. For freight charges differentiate naturally in favour of Romanian wheat against all that comes across the Atlantic: and Italy could deprive her of that advantage. And again a differentiation against Russian wheat by Germany would be specially harmful to Russia. But such matters have in effect been discussed already in connection with partial neighbourhood monopolies."

WHEAT WOULD AVOID HER PORTS: FOR THERE WOULD BE A DEMAND MUCH MORE THAN[...]^{exc}
*[undated]*⁵⁸⁰

The Policy of taxes on imports which discriminate in favour of particular sources of supply[.]

Systems of taxes which admit the exports of one country to another at specially low rates are, somewhat inaccurately, called Preferential. Such concessions are generally arranged in pairs by bargaining and mutual concession. A new Preferential system may raise or lower the average level of taxes on imports: in the one case it would be a movement towards a Protective policy and in the other towards Freedom of trade. Preferential arrangements between Britain and the Dominions make generally towards Protection so far as she is concerned, and away from it so far as they are concerned: because their present tariffs are highly Protectionist and hers are not. Preferences sometimes merely change the courses of trade, without affecting values perceptibly; sometimes they greatly benefit some interests and injure others. For instance if (say) Holland were to levy a special tax on wheat from Argentina, the only result would be that Argentine wheat would avoid Holland, and would displace a little Russian and Canadian wheat from the markets of other countries. No appreciable Revenue would accrue to the Dutch Exchequer from the tax: her consumers would get their wheat on the same terms as before: Argentina would not be appreciably injured nor would Canada and Russia be appreciably benefited. Even if the special tax on Argentine wheat were levied by such a large consumer as Britain the result would be somewhat similar: for so long as Argentina could sell her wheat to the Continent of Europe, under no heavier duties than are levied on wheat from other sources of supply, she could market the whole of her exportable crop on practically the same terms as if Britain had not differentiated against her. Britain would obtain her supplies from countries whose wheat she did not tax: her Exchequer would gain little; her consumers and producers would not be appreciably affected.

If Britain and her Allies gave a Preference to wheat produced within the Alliance over others, the Central Powers of Europe would draw most of

⁵⁸⁰ Text written mainly in black pen with a small part typewritten (here in small caps) on a blue and white folios, numbered in blue pencil 1-10 and in normal pencil BJ33-42. The title (text here underlined in red) is written on a blue folio. At the bottom of the last page is added in blue pencil "This is continued on some typed pages, which are in good order and do not need to be copied".

their external supplies from Argentina and the United States; the extension of German influences in North and South America would be facilitated; but no great direct economic changes would be effected, unless the import duties imposed by Britain even from the more favoured sources were sufficiently high to increase greatly the produce of her own soil. The responsiveness of Canada's yield of wheat to an increase of demand for it depends only in part on the extent and fertility of her land. It is greatly influenced also by the rapidity with which railways are built, and additional population attracted, in view of increased agricultural prosperity, and therefore it is not unreasonable to regard her agricultural industry as one of Increasing rather than Diminishing Return. This opens up large questions, which cannot be treated here: but it may be said briefly that, the ultimate incidence of Preferential duties is not governed so much by the relative sizes and economic strengths, of the several countries concerned, as by the elasticities of their several industries. It therefore does not fall within the scope of any arithmetical calculation; its subtleties can be grasped only by aid of a thorough study of the physical, technical and human factors of the problem; and even then its solution must be partly instinctive, and wholly diffident.

So far countries have been regarded as units. But in fact a chief cause of trouble in all tariff arrangements, is that they are likely to affect different parts of the same country enormously. A hint has already been given by France that a [...] ^{exci}
[undated]⁵⁸¹

Preferentials

A given preference to B's products over C's[.]

In so far as B's goods are really identical with C's, the preference will have no considerable influence except in so far as C is compelled to continue selling to A: to that extent A's consumers will pay a price on the level of the higher rate of tax, while A's Treasury gets receipts mainly on the lower level.

In so far as the B's goods really differ in quality from C's, A will pay a relatively higher price (taking account of suitability for her special uses) for some of B's products, and the case will be parallel to that of using an

⁵⁸¹ Text typewritten on large white folios numbered 61-63 (numbers typed). At the top of the first page is added in red pen: "the following pages were but little used in the last draft of National Taxation after the war. They must be turned in N [National industries] 27.11.16". Added in the margin of the last page in normal pencil: "This is specially important. 27.11.16".

excessive supply of moist home grown grains for milling, as is done in farming, except that in the German case the German gets the benefit and in this case A pays and B benefits.

A compendious instance of fallacies due to an over estimation of “substitution” is in Sir R. Lethbridge India⁵⁸² p. 36[.]^{excii}
[dated 27.1.09; 24.4.10 and 3.12.10]⁵⁸³

Preferences in spite of most favoured treatment

G[ermany] bargains with R[ussia] to put specially low duties on wool and silk mixtures (which I think are a speciality of hers): and for the time that is a Preference as against B[ritain]. But it is in effect a bounty on British manufacturers who turn to those mixtures. So it may be not a good thing for G.

If B had no favoured nation clause, then B could not ship to R except through G; either directly, or by selling to G while G sold similar products to R. In practice the last would be impossible because G’s own tariff would probably exceed the preference which she gets from R. But she might ship through G, by selling to a Hamburg merchant, unless a sharp look out were kept[.]^{exciii}
[dated 23.7.10]⁵⁸⁴

2.2. Differential and Combative tariffs

Adapting price to individual consumer

for one bargain provided you have a pro term monopoly
for always provided you have a permanent monopoly

Within your monopoly you will not sell below full cost price: you would rather be idle[.]

It is therefore⁵⁸⁵ very pleasant to have a dumping ground.

⁵⁸² R.Lethbridge, *India and Imperial Preference*, 1907. The book is recorded in the catalogue by Mary Paley.

⁵⁸³ Text written in black pen on white folios, numbered pages 1-2. At the top of the first page is added in red pen: “This is the best outline 24.4.10”; above the text is then added in red pen: “3.12.10”.

⁵⁸⁴ Text written in black pen on a white folio. A large asterisk in black is drawn close to the title.

Especially if those in whose grounds you dump cannot retaliate
Therefore⁵⁸⁶ it is very good to have a protective duty which practically
excludes competition[.]

But as rule a tax on your fellow citizens the products of which are handed
over to you would cost them less in proportion.

And if the tax is protective not only for your goods but also for others,
then unless your trade is exceptionally favoured by circumstance
there will be importation of your goods in normal times.

And if so it will be as easy to dump your goods as in a country in which
there is free trade.

It is not protective duties, but differential protective duties in favour of
special industries which give them an advantage in dumping.

But protection generally diminishes access of foreigner and therefore⁵⁸⁷
gives rise to monopolies against the public.

The richer a monopoly the more it can afford to kill rivals by underselling
just as in old times to hold factories and ports. In protected companies
monopolies generally are rich: and so much the worse for their fellow
countrymen on this side, though indeed they are thereby enabled to make
expensive experiments, have expensive plant, have expensive skilled
assistants, keep employees in good humour for fear of legislation

But they are sure to be tyrannical when really strong, and removed from
fear of Government[.]

And when they are not strong, then the conflict is the worst of all[.]^{exciv}
[undated]⁵⁸⁸

Balfour [:] Retaliation

Balfour at Bristol yesterday said that if Parliament touched nothing that
would open the way to corruption it must become scholastic. No doubt.
But the matter is one of degree. And retaliation would bring in much
corruption and not probably do any net good on the strictly economic side.
Extract is from standard's report.⁵⁸⁹

⁵⁸⁵ Written as a symbol.

⁵⁸⁶ Written as a symbol.

⁵⁸⁷ Written as a symbol.

⁵⁸⁸ Text written in black pen in white folios, numbered pages 1-4 and 13-15 in blue
pencil.

⁵⁸⁹ This part is written close to the following piece of an article cut and pasted:
"Others say, 'If you once Allow Fiscal questions to come within the purview of
Parliamentary action, if you abandon, even for a moment, the rigidity of our
ancient doctrines, the House of Commons will be corrupt, our lobbies will be

The second extract is from Hick's Beach's⁵⁹⁰ speech at the same Colston Banquet.

But note that if we have a power of frightening other nations much it is because we start with no taxes on their goods.⁵⁹¹

Balfour [:] Most favoured nation clause.

The key note in Balfour's speech yesterday at Bristol where (Standard Report) he says we should bargain for ourselves. Now if by a tariff war we hurt only our enemy, that would be wise. But since by a war we hurt ourselves; and since by letting other nations do the fighting would hurt no one, and not ourselves and get at least nine tenths, perhaps nineteen twentieths of the good which we should get by warring, it is prima facie bad policy to war. The Pros and Cons of war are always a question of

assailed by interested manufacturers or interested Company promoters, or Heaven knows what, and the whole purity of British Parliamentary life will be destroyed'.

Questions for opponents of fiscal reform.

How far, Ladies and Gentlemen, are you going to carry that doctrine? It seems to me if you carry it to its ultimate conclusion the House of Commons or Parliament could exercise itself about nothing the nation cared about, and if you were to debar any men interested in our legislation from coming to the Lobbies and discussing their interests, ten, perhaps, we had better devote our whole time to discussing scholastic philosophy (cheers)". "Balfour" is written in the margin of this text in red pen.

⁵⁹⁰ Sir Michael Hicks Bleach (1837-1916), Chancellor of Exchequer from 1885 and 1886 and again from 1895 to 1902.

⁵⁹¹ This text is written close to the following piece of an article cut and pasted: "In my belief the policy of the Sugar Convention Act is likely to be of great advantage to industries which it was intended to defend without any corresponding disadvantage to the country at large. I was very much struck with two matters that came before me as Chancellor of the Exchequer in the negotiations which preceded the Sugar Convention. I was very much struck with the immense importance which foreign countries in Europe attach to our free market here, and the intense fear on their part that they might be deprived of it (hear, hear). I was very much struck, also, with the opinion expressed to me by one of the most leading economists and public men in France that if we put our foot down on the question of sugar bounties, and thus aided in relieving the French people from a burden which had become intolerable to them, and which did good to nobody except the producers of sugar, we should turn their thoughts to the harm done to their country by Protection in its other forms, and we should lead them to consider whether in other matters they might not do something which would tend to free their trade with this country, and which would thus enormously improve the friendship and welfare of these two neighbouring nations (cheers). In the margin of this text is added in red pen "Hicks Beach".

quantity. He is therefore⁵⁹² wrong in treating the moral evil of Retaliation as negligible.⁵⁹³ cxcv
*[dated 14.11.03]*⁵⁹⁴

Combative Tariff Policy

The question how far by doing a little harm to rival interests in other countries we can get them to worry their Governments into changes for our benefit is not one on which the economist as such has any special authority. E.g. Cunningham argues⁵⁹⁵ - even a little combative tax on wheat will make new country agriculturists bully their government violently to do what we want. I am not sure they would succeed: but I

⁵⁹² Written as a symbol.

⁵⁹³ This text is written close to a piece of the following article cut out and pasted: "The most favoured nation Clause, to take an instance between two countries - let us say between England and Austria - provides that if Austria gives, let us say, Italy, particularly favourable terms for any Italian import into Austria, Austria shall be obliged to give us the same terms. In other words it, in appearance, gives us every advantage which France, or Germany, or America obtains from Austria, and our opponents - these so-called Free-traders - seem to imagine it is proper so to obtain fair treatment for our goods. In the first place that only means that you get your better treatment by bargaining. But it is not you who bargain, it is some other nation. But, ladies and gentlemen, bargaining may not be a very good way of getting what you want, Depend upon it, it is the better way if you bargain for yourself and for your own interests than if you take the bye-product of somebody else's bargaining for their interest. That is what the most favoured nation Clause is. But I have not exhausted the defects of an arrangement at all, though it is very far from the arrangement I should like to see, because Austria and Italy, for example, when they are made, we are to get the advantage, naturally try and make them so as to suit Italy and Austria, and so as to suit us. This is not denied, and never can be denied, by anyone at all cognisant, or by anyone familiar with commercial negotiations. When Germany, in 189, was making Commercial Treaties with three or four of her commercial neighbours, and when she was bound to give us the most favoured nation Clause - the same treatment as she gave to them - she set to work so to arrange these Treaties with her continental neighbours that the maximum of benefit should be given to those countries, and the minimum to us - not out of any malevolence to this country (A Voice: 'Oh, no'), but simply because, as she was probably paying these Continental nations for what they gave her, she did not see why she should pay also for what she gave us;"

⁵⁹⁴ Text written in black pen on white folios.

⁵⁹⁵ Most probably W.Cunningham, (1904), *The Rise and Decline of the Free Trade Movement*, London: C.J.Clay and Sons. The book is recorded in Mary Paley's catalogue.

can't say it would not be worth trying, if it were not that (a) it would interfere with simplicity and (b) it would worry the "preferred" fairness, when the tax was taken off. ^{cxcvi}

[dated 16.1.04]⁵⁹⁶

"Combative duties"

This is a broad term. "Retaliatory" seems more applicable to special attacks made by country B on country A's goods. While "combative" includes those which some people have proposed on say Russia or America to induce a lowering of tariffs which have been adopted, not as an aggression against this country, but as a part of a protective policy. That may be mistaken: but by fighting it we should not retaliate; we should endeavour to educate them against their will, for their good and ours. ^{cxcvii}

[dated 27.10.05]⁵⁹⁷

Combative tariffs

The arguments against a game of bluff are well put by Dietzel Q.J. May 03⁵⁹⁸ pp, 405-16

Earlier he argues little protective taxes do but raise hunger for more "Leutenot"⁵⁹⁹ in the excellent watch word of the agrarian party [(I]b p. 371[)]^{cxcviii}

[dated 20.1.04]⁶⁰⁰

Combative trading and tariffs

A country with low interest can get the better of one with high; because she can chose her time for selling and buying better. (This is brought out on behalf of Holland v[ersus] England by Barbon on trade⁶⁰¹ pp. 82-4 of original); and he might perhaps be well quoted on behalf of England

⁵⁹⁶ Text written in black pen on a white folio.

⁵⁹⁷ Text written in black pen on a white folio.

⁵⁹⁸ H.Dietzel, "The German Tariff Controversy", *The Quarterly Journal of Economics*, 17(3): pp. 365-416.

⁵⁹⁹ As explained in the article, Leutenot means scarcity of agricultural labour (p. 371).

⁶⁰⁰ Text written in black pen on a white folio.

⁶⁰¹ Nicholas Barbon on *A Discourse of Trade* (1690), edited by J. Hollander (1903), Johns Hopkins Press. The book, 1905 edition, is recorded in Mary Paley's catalogue.

v[ersus] Germany and USA). Hence we may infer that a British merchant, if alert can hold his own; and that since in combative tariffs between nations this “interest-weapon” is of little avail, he has rather less than others to gain by such tariffs. ^{excix}
*[dated 4.6.08]*⁶⁰²

Combative tariffs

Germany’s quiescence as regards Cape’s action in following Canada’s preferentials is quoted as proof of the success of “won’t take it lying down policy” and to some extent justly. No doubt the principle of not hitting back under any circumstances whatever does not succeed.

But the incident tells also on the other side. For it is proof even to Germany that excessive combativeness may be bad policy. Of course her action was not very unreasonable in substance: but its manner was atrocious. And to use F[.] Pollock’s phrase in today’s Times ⁶⁰³: - Chamberlain’s and even Balfour’s policy are too much “made in Germany”. ^{cc}

*[dated 7.1.04]*⁶⁰⁴

Combative tariffs

To say one will never go to law is to court oppression and insult: but that is no argument in favour of litigiousness.

The richer our markets and the more valuable they are to foreigners, the better is the position given us by our power to threaten that breach of most favoured nation clause will be followed by war on our part if it is

- (1) without excuse and
- (2) a grievous hurt to us^{cci}

*[dated 20.2.09]*⁶⁰⁵

High tariffs and the migration of capital

High tariffs raise the values of things that pay relatively to those which escape at the frontiers: one of which is gold[.]

⁶⁰² Text written in black pen on a white folio.

⁶⁰³ “Liberal Unionists and Fiscal Policy”, Letter to the Editor of *The Times* by F. Pollock, 7 January 1904, Issue 37284.

⁶⁰⁴ Text written in black pen on a white folio.

⁶⁰⁵ Text written in black pen on a white folio.

But in so far as capital has to pay e.g. iron & c. directly at the frontier, or bricks indirectly through the duty on workmen's commodities there is a set off. This indirect effect is of little importance in a new country because⁶⁰⁶ most of working men's expenses escape the tariff. That is the main reason why £ 1000 sent to USA would buy as much building etc there as in England, if conventional necessities were as low there as here. But high tariffs imposed by an old country tend to make it profitable to export money from that to another country with equally good national resources and a low tariff. As to A the exportation of brains, as well as skilled labour, it is thus: - a high tariff tends to keep them out, and to cause them to emigrate, except in so far as it (a) develops latent resources, or (b) puts a premium on a certain kind of labour: and this again get[s] back to nascent industries especially in new countries[.]^{ccii}
*[dated 20.6.05]*⁶⁰⁷

Tariffs and migration of capital

High tariffs in A on business α do tend to make people with specialized faculties for α start factories in A. But the question whether, high tariffs in general attract capital or drive it out, is a question of the relative net yield to capital (comfort to capitalist being thrown in) of a high tariff and low tariff[.]^{cciii}
*[dated 26.2.04]*⁶⁰⁸

⁶⁰⁶ Written as a symbol.

⁶⁰⁷ Text written in black pen on white folios numbered pages 1-2.

⁶⁰⁸ Text written in black pen on a white folio. The text is written close to the following piece of an article cut out and pasted: "During my residence in Ser[b]ia as British Minister, and subsequently in Switzerland, I was called upon to exert myself in behalf of one and the same firm, the manufacturers of Sunlight soap, which had been very extensively used in both countries on account of its excellence, its cheapness, and its perfume.

But the discovery that this general use of the soap entailed some loss to the revenue from the duty on toilet soap (a very heavily taxed article, easily distinguished by analysis from laundry soap) induced the authorities to impose on Sunlight laundry soap an import duty which was virtually prohibitive. In consequence its manufactures were compelled, as they could not get over the high tariff wall, to go round it by establishing a factory in Switzerland, to the detriment of British trade and British workmen.

With regard to biscuits and some other articles of British manufacture I could a similar 'tale unfold', but repetition is seldom convincing, and always tedious.

Your obedient servant.

Emigration of capital

Its effects when accompanied by emigration of

- (a) business power
- (b) owners of capital

are unmixed evil. Case nearly as bad if (a) emigrates also: for (b) will follow. But if capital alone emigrates then, though rates of wages are thinly diminished, yet the country is in a better position for getting her necessary imports; and as these consist largely of food & c. for the working classes, they gain a good share of this benefit.

Emigration of labour + capital + well to do is of course a benefit to a country which is both threatened by D[ecreasing] R[eturn] tendency and secure against war (though not against hostile tariffs)[.]^{cciv}

[dated 20.2.09]⁶⁰⁹

Tariffs and migration.

As a high tariff increases (lessens) general prosperity it will attract (repel) capital and labour[.]

But as regards a high import duty on a special commodity[:] they attract cap[ital] and lab[our] to make that commodity from making others: and especially if the country has not much skill in making it, the duty attracts cap[ital] and lab[our] from countries where that skill is abundant[.]

But per contra general protection, by making materials and plant and conceivably food & c. high priced, and therefore⁶¹⁰ generally making the p[urchasing] p[ower] of money low, makes it difficult for a person with special skill to turn it to account in manufacturing his commodity for exportation.

The most interesting forms of trade however are those which are induced by local or national differences in man and in the appliances which he has provided for himself. Under this head come differences of character, of knowledge, of skill, of capacity for industrial organization, and of wealth. These differences change their form rapidly. In early times specialities in manual skill and trade assets would send light and choice goods on very long journeys. But sporadically throughout many centuries, and almost universally in modern times, differences in manual skill have played a rôle

Shanklin, Feb. 20. F.R.ST John".

⁶⁰⁹ Text written in black pen on a white folio.

⁶¹⁰ Written as a symbol.

second in importance to the energies of specialized and organized industry[,] knowledge and capital.

Parallel to this change has been other changes in the character and relative importance of the hindrances to trade. The mere cost of transport is the chief hindrance to trade over long distances in bulky commodities such as corn and crude iron, which are wanted everywhere and require little or no adaption to special needs. But it is otherwise with commodities the demand for which varies in character from one time to another and from one place to another. For such commodities the producers[,] the traders and the ultimate purchasers need to know a good deal of one another; and they often need to trust one another. And for trade of this kind increased facilities for mere transport are often of secondary importance[,] increased personal communications, by word of mouth, by letter, by newspaper, by telegram and telephone, is the main thing needed to give to businessmen that knowledge of facts and persons at a distance which will enable them to adapt supply to complex and varying wants, and to enter into wide spreading fiduciary relations. Some of the obstacles to trade which progress is thus removing depend on differences of nationality, while other obstacles rise and fall with changing tariffs of imports on international trade.^{ccv}

*[dated 18.9.03]*⁶¹¹

⁶¹¹ Text written in black pen on white folios.

PART III

SECTION 1

MARSHALL ON THE FUTURE: POSSIBILITIES AND IDEALS

MARSHALL ON THE FUTURE: POSSIBILITIES AND IDEALS

What is needed, and what we may hope is coming in the near future, is a larger study of such schemes of the same kind and by the same order of minds as are applied to judging a new design for a battleship with reference to her stability in bad weather. (Marshall, 1920: 45)

The progressive spurs

As we saw in Part I Section 1, Marshall conceives economic progress as a multifaceted phenomenon which involves material, moral, and mental development at the same time. He considers industrial and labour efficiency, better quality of work and life, and general amelioration of human character as the most important conditions for economic progress. Accordingly, when reflecting on what factors could serve best to promote long-lasting progress, Marshall emphasises the following elements: the presence of progressive industries, improvement in communication and transport, the interplay of innovation and creativity with a certain degree of mechanization but also synergetic relations between custom and evolution, individuality and social community, competition and cooperation (Section 2).

According to Marshall, the presence of progressive industries is of crucial importance for a country to advance in material wellbeing (Part I, Section 2, Chapter I, §1); but what are the features that make an industry *progressive*? No doubt, its capability to innovate both product and the productive process, to experience and to introduce new techniques, to be flexible and to be able to change. Since innovation normally calls for ample capital, one might conclude that a progressive industry is necessarily made up of large-scale businesses. This was not true, however, for Marshall, who instead emphasized the important role of small businesses for promoting economic progress (1919: 325; 525). When comparing large and small firms, the accent is on the importance of flexibility and ability to change; whereas large firms have a structural rigidity that prevents them from readily adapting their structure to change, small firms, thanks to their far less structured organization, are in a better position to respond to possible exogenous changes. Of course, innovating

implies investing ample capital in research, new machineries and experiments, and it is therefore clear that the large firms have an inherent advantage over the small ones. However, as Marshall points out, small firms can equally compete⁶¹² with the large ones when they are collected in an industrial district⁶¹³. He particularly emphasises the difference between internal and external economies (Hart 2009), stressing the importance of the external economies and noting that “external economies are constantly growing in importance relatively to internal in all matters of trade-knowledge, newspapers, and trade and technical publications of all kinds are perpetually bringing much of the knowledge” (1920: 284).

The literature on Marshall’s analysis of industrial districts is very extensive and well-known (see for instance Becattini 1989, 1990, 2003; Belussi and Caldari 2009, 2010; Dardi 2009; Groenewegen 2009; Loasby 1998, 2009; Martin 2006; Nishizawa 2001; Raffaelli 2003); we will not return to the subject here. What we want to recall, instead, is one of the characteristics of the industrial districts: the synergy between cooperation and competition, i.e. competition and *constructive* cooperation. In the industrial districts, firms specialize in particular phases of the productive process: each phase is not isolated from but functional to the others. Accordingly, the districts represent both a competitive milieu for the presence of many firms and a cooperative environment where different parts interact in a continuous exchange process (Belussi and Caldari 2009: 338-339). It is in fact in the industrial districts that we find “the broadest, and in some respects most efficient forms of constructive cooperation” (1919: 599)⁶¹⁴. In Marshall cooperation is important for many reasons

⁶¹² With the exception, however, of marketing activity, as underlined by Marshall: “Nearly the maximum economy of production can often be attained by a well-organized business of moderate size: but [...] the task of marketing efficiently over a large area makes demand for almost unlimited capitalistic resources” (Marshall 1919: 511). See on this Casson 2006; Hart 2006.

⁶¹³ In *Economics of Industry*, for instance, we read: “small factories, whatever their numbers, will be at great disadvantage relatively to large unless many of them are collected together in the same district” (Marshall and Paley Marshall, 1879: 53). See also *Principles* Book IV Ch. X “Industrial organization, continued. The concentration of specialized industries in particular localities”.

⁶¹⁴ Dealing with the sources of the strength of British businesses, and stressing “strong individuality” and “constructive cooperation”, Chapters XII-XIII of Book III of *Industry and Trade* are largely devoted to various forms of constructive cooperation. Marshall starts chapter XII writing that “the broadest, and in some respects most efficient forms of constructive cooperation are seen in a great industrial district where numerous specialized branches of industry have been

(Caldari 2018b; Gerbier 2006), but it is particularly significant because it is the most suitable and effective element able to counterbalance “the hurry of competition” that may be “injurious to [...] social life” (Section 2, Chapter I, §4).

While recognizing in competition one of the most distinctive and important features of the modern economy (1920: 5) and a necessary element even in utopian organizations (Section 2, Chapter III, §2.2.), Marshall warns against the possibility of seeing competition as “the racing of one person against another” (1920: 5) or as some socialists suggest as “the exploiting of labour by capital, of the poor by the wealthy” (Section 2, Chapter III, §2.2.). Of course, the term competition unavoidably implies a certain degree of “selfishness and indifference to the wellbeing of others” (1920: 6); as such competition may result in some anti-social forms. Nonetheless there are also other forms of competition “which are so essential to the maintenance of energy and spontaneity, that their cessation might probably be injurious on the balance to social being” (1920: 8)⁶¹⁵. The latter may be considered forms of “constructive competition” whereas the former are examples of “destructive competition”⁶¹⁶. It is true, however, that when Marshall contrasts competition with “energetic cooperation in unselfish work for the public good”, then he recognizes that “even the best forms of competition are relatively evil”, that “even constructive competition is less beneficent than ideal altruistic cooperation” (1920: 9). In an “ideal social order [...] there would be no competition [...] for all would cooperate for the public good” (Section 2, Chapter III,

welded almost automatically into an organic whole” (1919: 599). See Nishizawa 2001.

⁶¹⁵ This form of competition is connected to what Marshall defines the “instincts of the chase” that characterize businessmen (Section 2, Chapter III, §2.2.) and that clearly forerun Keynes’s “animal spirits”.

⁶¹⁶ Marshall, however, notes that when the traders or producers “find that a rival is offering goods at a lower price than will yield them a good profit, [they] are angered at his intrusion, and complain of being wronged” (1920: 8), although consumers who buy those cheaper goods are advantaged so far that “the energy and resourcefulness of their rival is a social gain” (1920: 8). It is necessary therefore to pay attention to the sometimes claimed “regulation of competition”, because it may veil “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” (1920: 8).

§3.1.)⁶¹⁷. In “the world as it is”, however, things are different, and this is why in a progressive perspective Marshall emphasises cooperation as the necessary and unavoidable complementary element of competition.

The play between competition and cooperation recalls the synergy between “individuality” and “social community”. Marshall emphasizes that industrial leadership depends on individuality and creativity (Section 2, Chapter I, §1.4.): he warns against the risk that both individuality and creative faculty may be “dulled by the increasing sway of modes of action” (Section 2, Chapter I, §1.5.) connected to mechanical appliances or to an excessively rigid productive organization. As we know, this also accounts for his severe criticism of scientific management (Caldari 2007; Nishizawa 2006). Nonetheless, individuality cannot alone promote long-lasting progress: also necessary, in fact, is what Marshall calls “social credit”, or in other words “trust in the character of the society;

⁶¹⁷ Social order is related to the existence of different classes, groups, interests in society (see also Part I, Section 1). Marshall’s opinion on order is rather mixed. If on the one hand order is considered an important manifestation of progress and therefore advantageous and necessary, on the other hand it is regarded as something that can become dangerously troublesome. This two-edged view is clearly evident in the outline written for a lecture given at the Cambridge Non-conformists’ Union in 1901, where Marshall writes: “All progress is the development of order [...]. But I submit kernel of truth in notion Order is an evil [...]. A necessary evil in its place. [But] Find its place” (in Raffaelli, 1994). Social order implies the existence of different vertical strata that are hierarchically related together with a continuous spectrum of horizontal strata (accordingly, Marshall always refers to ‘working classes’, ‘industrial classes’, ‘artisan classes’ ‘middle classes’, ‘well-to-do classes’, ‘poor classes’ and so forth). The different sections are then connected to each other “(1) family unity, (2) industrial groups unity, (3) local unity, (4) national unity, (5) imperial unity, (6) race unity and (7) world-unity: each being coordinated with the others; and in general in ascending scale; except that 2 & 3 are cross divisions on the same plane; and so are 5 and 6. Each should be subordinate to the order above it, but the strength of each order depends in a great measure on coherence and vitality in that below” (Section 2, Chapter III, §3.4.). But Marshall promptly warns “In all this there is nothing about [...] order: for the function [...] of order is to give full play to the free exercise of faculties, in which alone is the highest happiness [...]. And of course order, in so far as it consists of external shackles is to be respected only because and in so far as it is a means to that end” (Section 2, Chapter III, §3.4.). Order therefore must co-exist with and allow ‘full play for faculties’, exactly as in *Ye Machine*. where routines are necessary but must leave room for creativity. Order is necessary for the existence and survival of any social community; it is the unavoidable foundation for any institution.

in the stability of public order” (Section 2, Chapter I, §3). This aspect calls into question the role of the institutions.

According to Marshall, the institutions are characterized by custom, which plays a very important role in ensuring a necessary degree of stability and order (Caldari 2015). Custom, for him, should not be a yoke (1920: 12; 86) but should be flexible and able to change although it should change very slowly because “even where custom opposes no great resistance to change, progress cannot be very fast” (Marshall, 1919: 199); in fact “Economic institutions are the products of human nature, and cannot change much faster than human nature changes” (1885b: 173). As noted in Schlicht (2006: 301-302), custom can be explained in terms of Marshall’s “moving equilibrium approach method: at any given time there prevails a set of customs and habits that guide human interaction. Many actions are just customary or habitual, but others are the result of deliberate choice... the prevailing mix of custom and choice governs interaction and induces certain outcomes as temporary equilibria”.

We find here the important and necessary balance between order and evolution, custom and change, that is at the core of the *Ye Machine*⁶¹⁸

⁶¹⁸ Marshall was Lecturer of Moral Science at St. John’s College, from 1868 to 1877. In the late 1860s he gave four philosophical lectures at the Grote Club of Cambridge: “The Law of Parsimony”, “Ferrier’s proposition one”; “Ye Machine” and “The Duty of the Logician of System-maker to the Metaphysician and to the Practical Man of science”. In these writings, particular attention is paid to psychology with the study of the functioning of human mind, the working of mental activities and the features of human knowledge (Cook 2005 and 2006; Loasby 2006; Raffaelli 1994 and 2003). In the paper “Ye Machine” Marshall studies the functioning of mind, combining Babbage’s studies on artificial intelligence with the evolutionary psychology of Bain and Spencer (Raffaelli 2003). He describes the mind-body relationship and investigates in detail how the human mind works. The mind is seen as an “evolving self-organization” which “grows” with experience. Human actions and mental processes are based on a mixture of standardization, other automatic connections and variation. External changes and stimuli call for mental and physical reactions: through the process of trial and error, man tries to deal with unknown and uncommon events. Successful trials are likely to be repeated and therefore to become “routines”. Man uses the same routine when he has to deal with the same or an analogous situation. Human actions and mental processes consist of a certain number of routines but there must also be a degree of freedom, since new events are continually taking place: the human mind must be free to start new processes of trial and selection. When already stored routines fail, processes of variation and forecast are called for, exploring new paths and solutions. Successful trials, when repeated, become “routines”. The growth of knowledge is considered “a never-ending process

model (Raffaelli 1990, 1994, 2003) and explains why progress must be slow: “though institutions may be changed rapidly; yet if they are to endure they must be appropriate to man: they cannot retain their stability if they change very much faster than he does. Thus, progress itself increases the urgency of the warning that in the economic world, *Natura non facit saltum*. Progress must be slow [...]” (1920: 249).

Setting Ideals

In his notes on progress, Marshall devotes much attention to what he holds is to be seen as an ideal. Ideals are “not comfort, not even absence of pain but life” he writes stressing the urgency for a *good quality of life*. “Our true aim”, he points out, “is the elevation of human life, the making it full & strong. (Life all round, individual and social, moral and religious, physical and intellectual, emotional and artistic” (Section 2, Chapter II, §1.1. and Section 2, Chapter I, §4; see on this Caldari and Nishizawa 2014). Ideals also involve “work”, to be considered as “a means of life” and indeed as “an expression of life” (Section 2, Chapter II, §1.1.). We have already seen (Part I, Section 1) the importance of labour and working conditions for economic progress. When Marshall considers it as an ideal for a progressive society he especially underlines the fact that each person should be called upon to make the best use of his/her abilities but should also be ready to do any kind of work if it is for the sake of promoting a general commonweal (Section 2, Chapter II, §1.1.); accordingly, people should not eschew “strenuous work”, even of a different quality to what they may be fitted for because efforts give “backbone to the character of man”, which is one of the most important pillars of society. Nonetheless work should not be “carried to the length of exhausting the strenuous intelligent energies”; otherwise, it would damage the “Summum Bonum” ⁶¹⁹, i.e. the possibility to turn to best account the

requiring both creativity and standardization” (Raffaelli 2003: 49) and for which imagination plays a key role.

⁶¹⁹ The literature (Dardi 2010; Whitaker 1975) refers to a “Summum Bonum manuscript” in which Marshall deals with a utilitarian social welfare function. This manuscript (MLA folder 5.11) belongs to Marshall’s early writings, although he “still proposed to use the idea as late as 1912” (Whitaker 1975, II: 317). However, this is not the only manuscript in which Marshall refers to the “Summum Bonum concept”. In the late note transcribed here Marshall connects the Summum Bonum which “lies in pleasurable exercise of faculties especially such as are of a high order” to some “necessary conditions” among which we find “an element of idealism, which generally includes some unselfishness & often some self-sacrifice

high order faculties (Section 2, Chapter II, §3) which are “in the public interest” (Section 2, Chapter II, §2.1.).

Of course, the world in which “every one renders the best service of which he is capable to the community” and where “the return which he receives is not in proportion to the value of his work to the community: it is simply adjusted to his needs” (Section 2, Chapter II, §2.1.) is to be considered an ideal in so far as it requires that all the men are “governed by an eager and wholly unselfish” attitude. This may occur only in an ideal state (Utopia). As suggested in Dardi (2010), when Marshall reasons about the ideal state called “Utopia”⁶²⁰, in which the (progressive) society is made up of gentlemen and gentlewomen and “there would exist only

for the benefit of other individuals, generally relations, or of groups [...]” and “comforts as well as necessities” whose “chief benefit” derives “in connection with unselfish benefits to relatives & others [and] the satisfaction derived from success” (Section 2, Chapter II, §3).

⁶²⁰ Marshall’s references to “Utopia” are present in many of his writings, from the very early (*Lectures to Women*, 1873) to the Eight Edition of *Principles* (1920), but he increasingly assumed a “utopian perspective” in his late writings. (Caldari and Nishizawa 2011, 2014; Dardi 2010; Groenewegen 1995). Utopia is in some respects close to the idea of Communism (also called Absolute Utopia) (see Becattini 1991) but it is also important to note that Marshall rejected any suggestion of any socialistic scheme “yet advanced” because “far out of touch with realities” (1919: vii) and inadequate “for the maintenance of high enterprise, and individual strength of character” (1919: viii). Marshall’s socialism is in fact closer to the principles of Christian Socialism, with a “religious emphasis on morals, community and duty”; notwithstanding his loss of religious faith, “Marshall never rejected religion as social and moral instruction” (Groenewegen 1995: 117). It is in the spirit of the Christian socialists that cooperation is considered a very important principle (see on this Caldari and Nishizawa 2011). Marshall refers to J.M. Ludlow in his *Lectures to Women* (1873) and met him at least once, as testified in his correspondence (Whitaker, 1996, II: 327-28) J.M. Ludlow was a founder of the Christian Socialist movement and helped to found the Working Men’s College in 1854. The following volumes by Ludlow are part of Marshall’s personal library (Catalogue 1927): *Progress of the Working Class 1832-1867* (1867) by Ludlow and Lloyd Jones, *Master Engineers and their workmen* (1852); and *History of the United States. 1832-1867*, (with T. Hughes). Several articles by Ludlow were then collected in Marshall’s bound volumes (see Caldari 2000; 2003; 2006c). See also above, Part I, Section 2, Chapter IV, §2. Marshall examined J.M. Ludlow in the Labour Commission on 28 October 1892 (Groenewegen 1996: 129-132). For Marshall’s “high regard for Ludlow”, see Groenewegen 1996: 129 fn.1. In fact, as it is noted, Marshall “was enthusiastic about Ludlow, and evidently valued his work highly” (Paley Marshall 1947: 44).

public duties performed only for their own sake”, public intervention proves unnecessary: “Utopia does not require a government”, Marshall writes (Section 2, Chapter II, §2.1.). But the real world, “where things are as they are” and “men are as they are” does not match those ideal conditions and – as we saw in Part II, Section 1 – requires some measure of public intervention.

Among the ideals, Marshall also lists the idea of a federation of the British Empire, considered “a noble dream but not the noblest” (Section 2, Chapter II, §4.5.). In Britain, the idea of an Imperial Federation “resurfaced at regular intervals, often as a panacea in periods of crisis” (Groenewegen 1995: 606), but Marshall always remained more sceptical than not (Caldari 2016)⁶²¹. His criticism was based on three main aspects:

1) The first had to do with his innate anti-imperialistic feeling; according to Marshall any form of nationalism was likely to have negative effects because it is usually imbued with egoistic and selfish sentiments. On the contrary, patriotism is understood to be a noble and generous sentiment which involves altruism and self-sacrifice. According to Marshall, the “spirit of patriotism has been a chief source of the progress of mankind [...]” (Section 2, Chapter II, §1.1.). It is a very important sentiment but it cannot mean merely “the desire for the well-being or glory of one’s country at the moment only; it extends to coming times even in the minds of those who seldom look very forward in regard to their private affairs” (Section 2, Chapter II, §4.3.). National unity, patriotism, unselfishness and spirit of sacrifice are ideals that become increasingly important for Marshall with the passing of time, as testified in the following late fragment:

Economic ideals and tendencies towards their realization.

Mankind have developed *social life*, with its *duties and sacrifices*, its resources and its aspirations, from the rudimentary *basis of family life*.

It is true that *social adhesiveness and cooperation* for

⁶²¹ In 1886 a Royal Commission had been established to inquire into the depression of Trade and Industry affecting Britain. Businessmen and experts—including Marshall (see Keynes, 1926: 3-16)—were called upon to give evidence. The Commission’s Final Report highlighted that, through the increase in foreign competition, Britain no longer held her position as the world’s chief manufacturing nation (Alford, 1996: 26. See Marshall’s *Industry and Trade*, Book I Chapter V). In response to these concerns, plus those highlighted by the Boer War, Chamberlain’s Tariff Reform League proposed a system of preferences with the Dominions and the creation of an Imperial Federation, the latter modelled along the lines of the German Zollverein (see below Section 2, Chapter II, §4).

the purposes of order internally, and of trade and war externally, have sometimes effected unity of organization and sentiment among people who were united only by geographic proximity; but as a rule community of blood has been the main cause of that unity of spirit, which first [creates] *clans* and then a *nation*. The *spirit of patriotism* has been a chief source of the progress of mankind; a man's love of *his country*, or even of *his clan*, has often been closely associated with a suspicious, and even hostile, attitude to those outside it. But the constructive force of his affections and his trusts has nearly always surpassed the destructive force of his dislikes and his distrusts [...] (dated Wool 2.7.21; Section 2, Chapter II, §1.2., emphasis added)

2) The second aspect is that Marshall's perspective was much wider and more cosmopolitan than simply "national". As noted by Groenewegen, "Marshall showed himself [...] a cosmopolitan and internationalist in the Cobdenite free trade sense" (Groenewegen 1995: 603). However, Marshall distinguishes himself from the Cobdenite supporters "on the ground that some of their utterances grossly exaggerated the benefits of free trade & underrated the compensatory benefits wh Protection might render – not indeed to England – but to New countries & even Germany" (letter to unknown correspondent, dated 6.6.1907 in Whitaker 1996, III: 160)⁶²². Moreover, his cosmopolitan perspective went beyond the simply economic dimension of the idea of free trade and embraced other levels. It was the experience of World War I that reinforced Marshall's creed that economic, political and even social relations were to become ever more international. In the opening lines of *Industry and Trade* he wrote: "[...] there still hangs above all countries, old and new alike, the shadow of war. A time may indeed come when the combative instincts, implanted in man's nature by countless centuries of fierce struggle for existence, may be stilled by a *Pax Cosmopolitana*, enforced by an international police [...]" (1919: 2).

⁶²² This kind of criticism was also made of the English economists who "implicitly assumed that whatever was true as regards England, was universally true". When he went to the United States in 1875 "to study American Protection on the spot", he had to note: "the failure of English economists to allow for special circumstances of new countries [...] [they] overlooked the fact that many of those indirect effects of Protection, which aggravated then, and would aggravate now, its direct evils in England, worked in the opposite direction in America" (Marshall 1890 in Pigou 1925: 258-261).

3) The third aspect, which explains Marshall's scepticism towards a British Federation, is connected with his criticism or suspicion of everything that implied any form of structural rigidity. For him, "The British Empire federated would be a mere congeries of payments" (Section 2, Chapter II, § 4.5.) and, as such, highly bureaucratic and inefficient.

Ideals mark the difference between a "calculating economic man" and a "reasoning ethical man"⁶²³ (Soffer 1978: 76) and are the bond for any progressive social community. Moreover, they are the unavoidable basis for a healthy and economically successful nation. In *Industry and Trade* Marshall writes: "Industrial leadership counts for much among national ideals. And if an individual, devoted merely to material ends, is but a poor creature, still more ignoble is a nation that is devoid of national ideals; that is, of ideals which recognize a national life as something more than the aggregate of individual lives [...]". (1919: 3-4).

In *Principles* there are several references to ideals, and even more in *Industry and Trade*, where they are also inserted in the subject index of the volume, whereas a specific part of the volume on Economic Progress was to have been devoted to "Ideals and their realization, the Attainable". In a late note (dated 1922) an ideal is defined "a distant haven towards which the [man] desires to make his way: but if he believes his way to be a straight line, he is likely to run on rocks or shoals[.]" (Section 2, Chapter III, §1.1.) whereas in a note dated 1903, among the attainable ideals Marshall lists: "Rus in urbe, urbs in rure"⁶²⁴; Variety in life, even when hands are monotonously at work; A right economic government by the

⁶²³ This is the true subject of Marshall's studies, as clarified in Whitaker (1977), which settles Parsons' perplexity regarding Marshall's "two strands of thought which are logically separate" (1932: 139). According to Whitaker, Marshall conceived of society as "a complex evolutionary process with manifold interaction between individual character and socioeconomic environment" (1977: 179). This also explains why Marshall refuses hedonist psychology: hedonism could not account for the complexity of human nature and behaviour and could not be useful for ethical purposes. Psychological preferences are governed in Marshall by income but also by living (social) conditions. (see on this 1907 in Pigou 1925: 324-5). Marshall praises Mill's stress that " 'in economic phenomena the psychological law mainly concerned is the familiar one that a greater gain is preferred to a smaller' and argues that science gets better hold in economic than in other social phenomena because it deals with motives that can be compared quantitatively and measured one against another" (Guillebaud 1961: 135-6). However, this footnote was in the *Principles* from the second (1891) to the fourth (1898) edition and was cut from the fifth edition of *Principles* (1907).

⁶²⁴ "Countryside in town, town in countryside". See also *Industry and Trade* (1919: 801).

people of their governors; Equal early opportunities: graduated later: opportunities, Stimuli, Fruitions; Steadiness of employment, provision against unsteadiness, Group unselfishness; Struggle without ferocity” (Section 2, Chapter III, §1.3.). “Aspirations towards the ideal” are defined as an important sign of “high endeavour” (Section 2, Chapter III, §1.1.) but ideals must be realizable, otherwise they become mere utopia. For this reason it is important to verify the limits to their realization: “The ideal opens out quests for new attainments: the limits of the attainable warn against the wastes of undisciplined dreams as to the future. Both the positive and the negative side of this study are needed for progress, that is secure against inviting retrogression” (Section 2, Chapter III, §1.3.).

Future Aims and Possibilities

When inquiring into economic progress, Marshall underlines what are in his view the possibilities for the future and what should be the aims of a truly progressive society. Among the most important aims he counts health (physical moral and mental) which “implies adequate food and warmth, and the exercise of affectionate interest on the wellbeing of relations and friends”, opportunities and scope of initiative, recreation and creative work (Section 2, Chapter III, §2.1.). It is easy to recognize here the elements that are most dear to Marshall and that we have already seen in the previous sections. But when dealing with the “ultimate aims”, Marshall offers a couple of reflections which we think are worth highlighting.

The first regards the aim of “the stability of business and the insurance of employment”: according to Marshall these two elements, however important, should not “be carried very far” because they can cause “social retrocession” (Section 2, Chapter III, §2.1.). This reflection belongs to the dynamic perspective of Marshall, who sees in continuous movement and change the essential source of growth and development. It also recalls the above-mentioned necessary coexistence of equilibrium and evolution, rigidity and flexibility, which constitute the basis of Marshall’s evolutionary framework (Caldari 2015; Dardi 2003; Loasby 1978; Raffelli 2003).

The second reflection involves the subject of equality. In a late note (dated January 1922) Marshall inquires into the alleged “desirability” of equality. He is critical of the idea of “equality in income” because, if attained, it would “cause that activity in work can be obtained only by compulsion” (Section 2, Chapter III, §2.3.). Of course, there should not be extreme inequalities in wealth, which would “prevent human faculties from being turned to their best account” (Section 2, Chapter III, §2.2.). His

position is different for “equality in regard to opportunities”: here he stresses that “equality is desirable in proportion to the value of services rendered” but he also warns that “the value is to be governed, not as now, by relative scarcity of trained faculty, but by the relative scarcity of exceptional intellectual activity”. For this purpose, it was necessary to have a “good and varied education” that could promote the “creative faculty” (Section 2, Chapter III, §2.2.). Here we find again the paramount importance of education as engine of progress (see also Part I, Sections 1 and 2).

This aspect recalls the role of public opinion, which Marshall considers very carefully. To better understand this point, it may be helpful to recall that in Britain between the Nineteenth and the Twentieth centuries political and social events⁶²⁵ accelerated the process towards a larger democracy in which an increasing mass of people, especially from the working classes, were able to play a significant role. This “new democracy” became a central issue for social thinkers and reformers; two main approaches can be distinguished: the elitists’, on the one hand, and the egalitarians’ on the other. Both “recognized that direction within a democracy depends initially and ultimately upon the success of particular individuals, groups, or interests in creating at least a tacit base of public tolerance. But elitists denied any need for a psychology of free choice [...]” whereas egalitarians sustained the necessity that “the individual members of a society feel self-confident and self-reliant” (Soffer 1978: 168). Marshall was closer to the latter group, although in old age his position became less definite⁶²⁶.

⁶²⁵ Namely, electoral and parliamentary reforms, women’s movements for parity of rights, trade union reforms, establishment of the Labour Party, debates on conditions of labour and pensions.

⁶²⁶ Significant is the following late manuscript, dated 26.4.22, where he writes: “Progress has required a ceaseless increase in the plant (as well as the materials) of industry. Adequate stores of plant can be accumulated under an autocratic Government: but only by pressure from above, which is inconsistent with the full fruition of life. Therefore, the pleasures, which are to be got from mere activities, are common to nearly all people in health and under a generous Government. (*If the Government is democratic, so much the better*: but the position of the mass of the people under a *despotic Government* may be good. Every horse is under despotic rule: but, if his owner has sense, the horse is supplied with all the chief requisites of a happy life. (Part I, Section 2, Chapter III, §2, emphasis added).

In the changes that were taking place he recognized possible troubles and difficulties⁶²⁷, especially connected with “the rapid growth of the power and inclination of the working classes to use political and semi-political machinery for the regulation of industry”. But, ideally answering to the elitists’ position, he went on: “That may be a great good if well guided. But it may work grave injury to them, as well as to the rest of the nation, if guided by unscrupulous and ambitious men, or even by unselfish enthusiasts with narrow range of vision” (1902 in Guillebaud 1961: 166). Therefore there was a pressing call for those men “who have received a sound training in economics and in political science, and can bring to bear that elasticity of mind and that quickness of sympathy with aspirations and ideals that are not their own [...]” (Guillebaud 1961: 170-1). Education, sympathy and cooperation were the ingredients of a progressive society in which it would be possible to “obliterate the old doctrine that the many must pine in order that the few may pioneer” and to reach “the distant goal where the opportunities of a noble life may be accessible to all”; these are the concluding words of “The old generation of economists and the new”, which were repeated in the section “Possibilities of the future” in the closing Chapter XIV “The decline of exclusive class advantages in industry” in *Industry and Trade* (1897a in Pigou 1925: 311; 1919: 665).

According to Marshall the “true kernel of democracy” lay in “the equality of conditions” and “where all receive nearly the same school education, where the incomparably more important education which is derived from the business of life, however various in form it be, yet is for every one nearly equally thorough, nearly equally effective in developing the faculties of men, there cannot but be true democracy” (1875 in Whitaker 1975, II: 373). Education therefore is considered the most important means to fulfil an authentic democracy and it is the essential spur of progress. A truly “liberal education”, which also characterizes “Ye Machine”, has as its chief function the task to “educate character, faculties and activities” (Marshall 1920: 718). Education is important to better the individual and promote the group sympathy on which society is based. Education must be provided in an egalitarian way – an aspect increasingly stressed by Marshall, who clearly saw in the new elitist trend of sociology and social psychology a worrisome danger⁶²⁸.

⁶²⁷ Some of his fears were shared by other thinkers of the time, like Arnold White, who “saw democracy imperilled both by socialism and a selfish bureaucracy” (Soffer 1978: 223).

⁶²⁸ Especially in the radical version of Eugenics. In fact, one of his rare involvements in public debates regarded a study by Karl Pearson for Galton Laboratories in 1910 on the influence of parental alcoholism. (see on this

As we have seen, a certain degree of unselfishness and self-sacrifice was an essential element to attain “Ye Summum Bonum”, and even more necessary in a democratic State where there is the risk that “particular groups of the people look on the polls, as opportunities for advancing their own sectional interests, rather than for rendering an upright and dutiful service to the State, the Mother of all, then the nation as a whole will become less noble, weaker and ultimately poorer [...]” (1919: 495). In this context, Marshall sees an increasingly important role of public opinion – defined as “an informal Court of Honour” (1907 in Pigou 1925: 343) – because if it is true that “[...] Government influences public opinion, and may gradually bring public opinion to the approval of its policy: but yet Government is now governed by the people whom it governs [...]” (dated 8.10.23 and 20.12 23, Part II, Section 2, Chapter I, §2.1.). Moreover, public opinion plays a pivotal role in economic matters, especially because of the “growing complexity of economic organization” and the growing number of “quarrels” and “conflicts”; indeed, it could work better than the law, which tends to be “slow, cumbrous, and inelastic, and therefore ineffective”⁶²⁹ (1890 in Pigou 1925: 286). This is the reason why “public opinion”⁶³⁰ needs to be educated⁶³¹ for its new

Correspondence in Whitaker 1996, III: 250-81; Groenewegen 1995: 479-485; Soffer 1978: 90-95).

⁶²⁹ “[...] the desire of men for the approval of their own conscience and for the esteem of others is an economic force of the first order of importance, and...the strength of public opinion is steadily increasing with the increase and the diffusion of knowledge, and with the constant tendency of what had been regarded as private and personal issues to become public and national” (1890 in Pigou 1925: 285).

⁶³⁰ “In a country, such as Britain, public opinion is in great measure formed by newspapers. But a chief aim of writers in newspapers is to keep in close touch with public opinion; in so much that the newspaper press is in great measure the medium, through which public opinion criticises itself, and develops itself”. (Undated, Part II, Section 2, Chapter I, § 1.2.)

⁶³¹ Unselfishness, too, can be promoted through proper education, as is stressed in this note dated 18.8.22: “The adjustment of human efforts to the satisfaction of human requirements. Its methods, its limitations, and its accomplishment”

A The extent to which education and opportunity direct each sort of individual effort to those routes on which it can be most effective for the general good[.]

B The extent to which organization turns individual faculties and efforts to the best account for the general good.

(In A & B the modes of measurement available are to be noted; and their efficiencies weighed)

C Suggestions for improvement by means, which do not demand more (i) ability, (ii) energy (iii) unselfish devotion to general weal than can be expected of human

responsibilities” (1890 in Pigou 1925: 287). It must become expression of a general chivalry both “on the part of the individual” and “on the part of the community as a whole”⁶³² (1907 in Pigou 1925: 344). For Marshall chivalry includes “public spirit [...] [and] a delight in doing noble and difficult things because they are noble and difficult” (1907 in Pigou 1925: 330); as such it stimulates “the highest constructive work” which can act against “the oppressive routine” (1907 in Pigou 1925: 331-332).

Marshall underlines the importance of “social ideals and the ultimate aims of economic effort”, to set free the growing resources and open out “to the mass of the people new possibilities of a higher life, and of larger and more varied intellectual and artistic activities” (1907 in Pigou 1925: 324-25. See Nishizawa forthcoming). According to Marshall, once the necessities of life are provided everyone should seek to increase the beauty of things rather than their number, as improvement in the artistic character of furniture and clothing trains the higher faculties of those who make them. The world would go much better if everyone bought less and took the trouble to select for real beauty, preferring to buy a few things well-made with high-paid labour rather than many badly made with low-paid labour (See Section 2, Chapter I, §4). He insists that “it would be a gain if the moral sentiment of the community could induce people to avoid all sorts of display of individual wealth” (1920: 136-7).

In his view, it is easier to work well than to use wealth well, and much easier than to use leisure well. In the *Principles* (last chapter titled “Progress in relation to standard of life”) as well as in “Social possibilities of economic chivalry” (1907), Marshall stresses the importance of the way wealth could be used:

“The inequalities of wealth, and especially the very low earnings of the poorer classes, have just been discussed with reference to their effects in dwarfing activities as well as in curtailing the satisfaction of wants. But here, as everywhere, the economist is brought up against the fact that the power of rightly using such income and opportunities, as a family has, is in itself wealth of the highest order, and of a kind that is rare in all classes.” (1920: 720)

Marshall reflects on the ways to raise the standard of life, moral standards and wellbeing. He argues that although a shortening of working

nature, (as it is, or may be made by adequate education)[.]” (Section 2, Chapter II, §1.2.).

⁶³² An important contribution in these fields was provided by Martin Conway, who focused on the role of public opinion as a moralizing force within a society.

hours would lessen the national dividend and lower wages, yet it would be well that most people should work less, provided that the consequent loss of material income could be met by abandoning the least virtuous consumption practices. He here underlines the importance to make good use of income and consumption ethics, or the “virtuous utilization of resources”; this seems to chime with some arguments in Keynes’s “Economic possibilities of our grandchildren” (Keynes 1930). In the *Principles* Marshall recognizes that “leisure is used less and less for mere stagnation” and that “there is a growing desire for those amusements, such as athletic games and travelling which develop activities [...]” (1920: 89). However, he also admits that “unfortunately human nature improves slowly, and in nothing more slowly than in the hard task of learning to use leisure well. In every age, in every nation, and in every rank of society, those who have known how to work well, have been far more numerous than those who have known how to use leisure well [...]” and warns “It is only through freedom to use leisure [...] that people can learn to use leisure well: and no class of manual workers, who are devoid of leisure, can have much self-respect and become full citizens” (1920: 720).⁶³³

It is worth noting that all the possible aims Marshall takes into account are valued and considered mainly in terms of their possible aggregate social effect: even when reflecting on the possible aims of human longevity, Marshall notes that it is to be considered advantageous “only when its net benefit to the individual and the society combined exceeds that which would probably accrue to and result (in progress) from a more short lived race” (Section 2, Chapter III, §1).

When endeavouring to foresee future trends and changes, the old Marshall still has some surprises in store with his extraordinarily relevant considerations: in fact, he envisages an increase in food consumption but especially a change in the people’s diet, with greater consumption of fish and vegetables; he foresees an important change in power consumption, with a growing use of alternative sources of energy including the sun, winds and tides; he also sees growth in “the constructive business functions of the state” and, in general, broader scope for public intervention. In a very late note (dated February 1923) he even suggests the constitution of a sort of public wellbeing Committee to deal with health matters and wage and labour conditions (Section 2, Chapter III, §2.2.) – all issues at the heart of current debate.

⁶³³ As he writes in the *Principles*: “Free from the fatigue of work that tires without educating, is a necessary condition of a high standard of life” (1920: 720). See also 1920, 249, referring to “Natura non facit Saltum”. On this point, see Nishizawa, forthcoming.

SECTION 2

MARSHALL'S VOLUME ON PROGRESS:

BOOK III

POSSIBILITIES FOR THE ECONOMIC FUTURE

CHAPTER I

WORK AND LIFE: PROGRESS AND EVOLUTION

1. Some influences of economic progress on the quality of life⁶³⁴

Present influences on the distribution of progressive industries among the nations

In early times the techniques of industry & trade varied greatly from one country to another, & even within the limits of a single small country: now they are in great measure international; for a considerable advance made in any industry is quickly known to similar industries throughout the western world by technical newspapers & other means. The distribution of a country's energies among different classes of industries is however controlled at least as much as formerly by the character of her people; except where considerations of public policy, whether wise or unwise, lead to discriminations by tariffs or other means in favour of particular industries.

A rich population is of course specially inclined to develop industries, in which a very large output can be obtained by a relatively small number of operatives, furnished with an ample supply of expensive machinery. But exports of the products of these industries are sure to be met by heavy duties in foreign markets. For every country desires to develop such industries; & many countries protect by exceptionally heavy duties any of their own manufacturers, who are contending, with relatively slender resources in men and in machinery, against the large & well-organised resources of older and stronger rivals elsewhere. Therefore no country can maintain a lead in manufacture, if she rests content with methods that have done good service in an earlier generation. She must ceaselessly develop new resources of her own that will enable given amounts of her labour and

⁶³⁴ The titles of this section and the following sub-sections are as in the original manuscripts.

capital to produce larger quantities, or better qualities, of goods that are in general demand; while adding continually to her products new varieties, that meet the larger & more critical demands of each successive decade. To this end she must improve her methods and enlarge her plant with resolute energy.

But the exclusive use of such improvements cannot be long maintained: for the methods of a national industry cannot be kept secret even to the limited extent to which secrecy can be maintained in regard to the methods of an individual firm⁶³⁵.

A comparison of the advantages, which advanced & backward nations respectively derive from improved means of communication, & from a lowering of the costs of transport

Speaking broadly it may be said that the external trade of an advanced country enables her to obtain increased supplies of raw products, & especially such as are not easily to be forced in sufficient quantities from her own soil: for it promotes a rapid development of her manufacturing & other industries, in which an increase of output renders possible the multitudinous efficiencies and economies that may be derived from an increased use of highly specialized skill & plant.

The benefits, which a backward country with large natural resources derives from her external trade, are different: but as a rule they are even more important. It is true that they are mainly agricultural and mining industries: & that in an old country they are often to be described as tending to yield a “diminishing return” to increased applications of labour and capital: but in a new country land & mines are seldom worked so hard as to bring that tendency strongly into operation, even so far as concerns the mere quantity of the product returned to each new effort. And the exchange value (or selling-price) of each ton at the pithead generally rises fast, as the population of the new country expands; & especially as railways are constructed to connect the mines with sea-ports whence the ores, – or the metals made from them – can be sent to old countries, whose

⁶³⁵ [Marshall’s footnote:] “Even in regard to the special methods of a single firm much can often be learnt by chemical or microscopic studies of its products. Or again fragments of information, sedulously collected from various unsuspecting sources, may be combined sufficiently to suggest experiments, that will lead near to the desired result, & possibly even to one better than it. Attention has already been called (Industry & Trade) to the special incitements to secrecy in regard to new methods, which result from the technical conditions of chemical industries: their case is important from the national point of view, partly in connection with military problems; but its conditions are in some measure exceptional”.

mineral resources are inadequate for their needs. The demand of the world at large for such products is almost inexhaustible. It might not indeed respond fully to a sudden violent increase of supply, if that were possible. But in fact such an increase has never occurred; partly because the full development of the resources of a great agricultural district is bound to wait upon the construction of roads & railroads connecting it with a great river or an ocean port[.]

Attention has long been directed to the fact that those men, who have advanced the technique of an industry, may find that they have lowered the importance and the pecuniary value of the special skill & experience, which had enabled them to make the advance: and, what is true in regard to expert individuals, is true also in regard to expert nations. Early advances, which were made in the arts of spinning and weaving, enabled highly paid English artisans to undersell the handiwork of Oriental & other operatives whose earnings were very low. But successive improvements in textile machinery enable much of it to be worked by simple-minded people; provided that a few skilled artisans are at hand, by whom any failure in the plant or the work can be set right.

Meanwhile machinery is sent to remote parts of the world which enables small flaws in textile plant to be set right on the spot⁶³⁶.

The internationalization of the methods of progressive industries

The internationalization of the methods of industry tends to raise average standards of comfort throughout the world: but it intensifies the strain which a country with but narrow natural resources must endure; in order to maintain a leading position in the world.

A country, which has large undeveloped resources, such as Mexico appears to have, may rise to an important position in world economy, even if her people do not develop industrial faculty of a very high order. But a country of western Europe, which has attained a high place in the council of nations by alert energy rather than by aid of any special bounty of nature, cannot afford ever to lag behind the best industrial practice of the world in regard to any important industry, that is adapted to her resources & conditions. The most direct and immediate penalty for any neglect in this direction would probably be seen in a relative, if not an absolute, decline of her wealth & her command over the material bases of national strength. But yet more serious injuries to her power, her prestige, & her rank among the makers of world-history might result from even partial

⁶³⁶ [Marshall's footnote:] "The high rate of interest, which is required to induce European capital to wander far from its home, is often based on relatively low capital values of the plant: which may have been selected for exportation, because it is less efficient than the most recent products of Western engineering works."

failure of her population to maintain in a preeminent degree the quality, which makes for leadership in business – a quality which is, in some respects, of more vital significance than the leadership, of which it is the chief source. That quality is a high order of individuality.

Its strength is shown in originating faculty, & in broad based steadfast resolution. Such resolution is the opposite of obstinacy. It is the persistent adhesion to the principle that conduct is to be based on careful study of the conditions of each problem, as it arises; & to be adjusted from time to time to any conditions – whether old or new – that come into view. It is a chief factor in the production of material wealth; & is therefore of primary importance in relation to economic problems. But its scope is far wider than theirs: it holds the master-key to the progress of mankind.⁶³⁷

The dependence of industrial leadership on individuality and creative faculty has not been greatly affected by the predominance of routine in staple manufactures.

[part missing]⁶³⁸

Advanced mechanical appliances often fail to stimulate high mental activities in the artisan while at work: but as a general rule, they relieve his muscles of the strain, which used to leave his mind torpid at the end of the long day's work

It is probably true that the lower grade of artisan is educated by his work in a less degree now than some of the hand workers in earlier times were. But in fact most hand workers had merely monotonous work that strained their muscles & wearied them, without educating them. Steam machinery has done unmixed good by taking over the heavy work of sawing & lining logs; of digging planing & weaving. Nervous energy that used to be given

⁶³⁷ Text deleted at this point: “Economics is directly concerned only with the industries and trades that supply the material means of that progress. But indirectly it is concerned with the influences of that progress on the quality of human life: and to that extent it is a master-science”.

⁶³⁸ Pages related to this section are missing. There are two other folios numbered “§4” with two different titles: “§4 Improved means of communication have, on the one hand, extended the areas over which expert industries can market their wares; except where they are met by very heavy Protective duties: but, on the other hand, they hasten the diffusion of any technical advance, made by an alert industry among its rivals” and “§4 Recent advances in the technique of transport and of electrical communications give greatly increased advantages to alert industries and trades; while lowering the importance of proximity and of racial affinity between producer and consumer”.

to each fatiguing muscular work is now free to enable the manual worker – already able to read – to take his part as a well informed citizen in the discussion of large affairs affecting his country as a whole; or it may be the particular local or industrial group of which he is a member

In concluding the trilogy R⁶³⁹, N⁶⁴⁰, vols I & II their main drift may be set out thus: –

A. It is true that Individuality is (in regard to what used to be some of the higher grades of manual work) in danger of being dulled by the increasing sway of modes of action, which incorporate the results of extensive experience. The original sources of these results (though they belonged primarily to various countries, & classes of society and centuries) are now so systematically reduced to compact form, & concentrated by study & experience, that their authority is very great. They may be the best possible; but yet mischievous in some directions if they seriously check the free growth of individuality. These considerations are pertinent to the economic problems of every progressive country; and to none more than, if as much as, to those of Britain.^{ccvi}

*[undated and dated]*⁶⁴¹

2. Custom and evolution

Savage races are often unconsciously under the dominion of custom in many matters: and even in early stages of civilization, the unaccustomed is generally disliked and often regarded as impious. The gradual development of custom has achieved wonders in the nests of ants: and the underground mansions of beavers are masterpieces of ingenuity; their elaborate defences against floods become futile when they are forced to build in places where there is no stream which might threaten a flood though the inferiority of instinct to reason is shown by their persistence in building underground passages. Instincts of this kind are shown in a high

⁶³⁹ Symbol which stands for “Principles”.

⁶⁴⁰ Symbol which stands for “National Industries”.

⁶⁴¹ Text written in black pen on white and blue folios. The pages are bound to a brown folio on which is written “† Chapter IV, Some influence of economic progress on the quality of life”; in the margin Mary Paley added: “This was written in 1920, during his last visit to Tyrol, & while waiting for lost luggage (containing books & MSS) to turn up. MPM”. On another (white) folio bound to the others is written: “23.7.20 Influences of well directed organised effort on the Quality of Life + General Conclusions”; a large “N” is then added in the margin.

degree by the dams and other contrivances by which beavers defend themselves against floods; But the inferiority of custom to reasoned action is shown by their persistence in building dams and even underground passages adapted to supply escape in time of flood even when they build in places where there is no water that would cause a flood[.]^{ccvii}
*[undated]*⁶⁴²

Trees in exposed places owe much to the protection from the stress of winds which each derives from its neighbours: but the finest trees are found where no such protection is needed, and each has ample room under the earth and in the air for free expansion, and for the full development of its own idiosyncrasies. Life in herds or other societies has developed many subtle instincts, with far reaching results; as is seen in the settlements of beavers and of bees. But yet, so far as is at present known, the traditions of such communities have grown up automatically and without fore-thought; they are often applied rigorously even under new conditions, to which they are not appropriate.

On the other hand, while still dwelling in caves man showed germs of conscious and deliberate application of means to the attainment of ends: the early development of property in the ownership of the family, if not of the individual, rendered possible the foundations of modern economic organization[.]

There seems to be good reason for the belief that strong individualities dominated much of the progress that was made even while traditions and custom still dominated the actions, the thoughts & the hopes of the population at large. Even in semi-civilized peoples, such as those of Western Europe during the so-called “Middle Ages”, habits of independent thought and volition were almost confined to hereditary ruling classes: though occasionally a shipper-bearer might become the founder of a great dynasty; and an uneducated but capable leader of a band of mercenaries, or even of robbers, might be the grandfather of a Prince, who extended discerning patronage to painters & sculptors of imperishable fame⁶⁴³.^{ccviii}
*[undated]*⁶⁴⁴

⁶⁴² Text written in black pen on a white folio and its reverse.

⁶⁴³ Text deleted at this point: “All this is true: but it is also true that the most clearly marked drift of the present generation and of its [...]”.

⁶⁴⁴ Text written in black pen on pieces of white folios.

[...] ⁶⁴⁵ as to (b) evolution.

Problems of evolution have much similarity with mechanical problems. There is indeed little in real life to correspond with a fixed position of stable equilibrium ⁶⁴⁶ about which there are oscillations. If however we take periods, extending over a hundred years in earlier phases or a much shorter time perhaps a decade in the present we get something like it. And, if we stretch over long periods, we see that we have to take account of the movements of the centre. Real wages for instance have fluctuated throughout the century, but about a rising centre; just as the planets revolve round the sun, which is itself moving through space.

So evolution may be regarded as the rise and fall of individuals about a centre which changes as the species to which the individual belongs is changed also.

But in evolution there is a change in the character of the forces at work, which is of a different order from mere change in quantity. It is also a change in character. For instance industrial fluctuations go on with 10 yearly amplitudes as before: but the centre about which they move has changed in character and continuously and with even increasing rapidity throughout XIX century.

And this is illustrated on a larger scale in the special subject of this monogram. It soon became known that industry and trade had phases, that there was progress and evolution.

This was List[']s fundamental idea: he argued that what was good for a country in one phase was not good for a country in another phase.

Knies pointed out he had omitted to take account of the fact that the pace at which the phases were lived through was subject to evolution: that they tended to synchronize[.] ⁶⁴⁷

But it is still assumed that concentrated capital and production tends to promote national leadership now as it did in Knies' time. But [it] is needful to inquire whether evolution has not affected the character of the economic and social influences which are created by the concentration of capital.

That is the second purpose of this book. ^{ccix}

⁶⁴⁵ Previous text missing.

⁶⁴⁶ Written as a symbol.

⁶⁴⁷ Written above this last sentence, in black pen: "go into this matter carefully or avoid it altogether" + there is a large asterisk in red pencil.

*[undated and dated]*⁶⁴⁸

But such mathematical reasonings are not applicable to economics; because economics⁶⁴⁹ does not deal with inanimate matter⁶⁵⁰; but is rather akin to physiology and other sciences that are concerned with life. Such sciences must be ceaseless in observation: they must use it to suggest appropriate courses of reasoning; but they must not trust reason to guide them far in regions, in which the way has not been prepared by well-ordered studies of representative processes of evolution of industrial faculty and process. The task cannot be achieved by one man, nor even by one generation. But from the middle of the eighteenth century onwards, each generation has made important contributions to it. There seems to be sound reason for the hope that each future generation will add something important to men's understanding of the processes of their own social and mental growth: in so much that economic evolution will advance by no haphazard course. Progress will, it may be hoped[,] be secure; because men will have learnt much in regard to great problems, of which we as yet know but little. They will know much in regard to a question which occupied some of the attention of Greeks of old, and has become increasingly prominent in recent generations: the question – how far it is possible that man's increasing command over matter or – which is nearly the same thing – his increasing knowledge and appliances have enlarged his knowledge of the things, for the sake of which life is most worth living.^{cx}

*[undated]*⁶⁵¹

Starting point: races prosper if the individuals have social virtues. Honour

⁶⁴⁸ Text written in black pen on greenish folios numbered pages 2-8. The text is much amended. Above the text on page 2 is added in red pencil "5.4.23" together with a large asterisk. The folios are bound to a blue folio on which is written in red pen: "N [i.e. Principles] IV I ~~For an early essay (or CH) 5.4.23. Limits to man's subordination to evolutionary tendencies.~~ A scheme made for the recasting of II I, now assigned to IV I 9. 11. 07" and in black pen: "Essay II, II, 18. 4. 23. To adjust this to recent conditions will be difficult It must stand over, probably for ever".

A large "Qe" (meaning "quaere" or "I question whether") is traced in red pen above the text.

⁶⁴⁹ Text deleted at this point: "is not a branch of physics".

⁶⁵⁰ Text deleted at this point "but with animate".

⁶⁵¹ Text written in black pen on white folios, not numbered.

among thieves, only because⁶⁵² those bands of thieves which have no thieves honour disappear. But still it is on the whole slightly probable that any habit or institution which prospers does good to its environment.^{ccxi}
[undated]⁶⁵³

3. Private (Personal) and Public (Social) Credit

[Credit may⁶⁵⁴] be divided broadly into that which attaches to the community as a whole and that attached to individuals or groups of individuals. The former may be called “Social credit” or, when the community in view is politically organized, “Public credit”. The latter may be called Private credit or Personal credit⁶⁵⁵[.]

Private credit is based on the trust that each man reposes in the will and the power of particular persons to fulfil their obligations, expressed chiefly in terms of money. Another kind of credit relates to the business world in general; or, at all events, to that part of it in which he is specially concerned. This general – or social – credit may be troubled by rumours of war or other disturbance: by the spread of an opinion that a good many people have been spending too much relatively to their means; or engaging in bold ventures which cannot be brought into effective working without larger supplies of capital than are likely to be forthcoming for the purpose: and so on. The development on a large scale of social credit is the product of advanced civilization: though some of its most rapid expansions and violent disturbances have occurred when advanced methods of business organization and business credit have been suddenly introduced among a

⁶⁵² Written as a symbol.

⁶⁵³ Text written in black pen on a white folio. At the top of the page is written: “Either opening or ending of §”.

⁶⁵⁴ Text written and then deleted.

⁶⁵⁵ [Marshall’s footnote:] “The term personal credit is the more appropriate when attention is specially directed to the character and associations of the person or persons in question. But much of the credit which is received by individuals is based on specific property possessed by them, and depends but little on their personal character. And therefore when studying credit documents a little later on, it will be well to contrast Private credit with Social or Public credit; so that room may be found for such documents as mortgages and others which are directly based on specific properties.”

population which had had but little experience in great undertakings and the handling of large risks.⁶⁵⁶

Personal credit is manifested when one man has sufficient trust and confidence in a customer, to undertake the production of something to his order, or undertake some other enterprise on his account, without requiring an effective pledge that the customer will complete his part of the bargain. Incidentally this confidence implies a confidence that the customer's purpose will not be frustrated by dislocation of the general course of business: that is implies a certain amount of Social credit. Social credit is trust in the character of society; in the stability of public order, in the gradual and harmonious development of economic conditions; and in the probity and reasonableness of the people. This credit is the basis of that confidence in the steadfastness and efficiency of markets, which is a necessary condition of the division of labour among producers, and between producers and middlemen. In fact credit social and personal, but as a rule preponderantly social, lies at the basis of most of the larger affairs of private life and of nearly every transaction of business.

Social credit on its political side has had extreme vicissitudes. It was broader based and firmer under the Pax Romana than in almost any age except the present.⁶⁵⁷ During the Dark Ages there was little public credit; and the fortunes of the Fuggers, de la Pole and other great merchants were largely based on the inability of a monarch to borrow in his own name. He was likely to repudiate his debts wilfully and then he could not be sued: and his tenure of power was often insecure.

While Governments were not trusted they could not borrow easily, that is they could not easily obtain credit in the common use of the term: and at the same time the money made by them, or at least under their orders, was not trusted; because there was no certainty that it would not be debased and issued in excessive quantity.^{658ccxii}

⁶⁵⁶ Text deleted at this point: "The South American crisis was a notable instance of this".

⁶⁵⁷ Text deleted at this point: "The industrial progress and we shall see presently the credit of Government has indeed greatly increased the military strength of almost every country: but the Thirty Years war and the Napoleonic wars showed that such progress contributed little to that political security which is a necessary condition of the present".

⁶⁵⁸ Text deleted at this point: "For these reasons a realistic presentation of problems relating to the value of money cannot be always best discussed by aid of realistic illustrations".

*[undated]*⁶⁵⁹

[...] suspect he does not know. My own definition would tend in this direction:- every person has a right to the performance of those duties for which he or she is the best qualified together with such freedoms and such rewards as can be maintained without disproportionate hurt to the rest of society.^{ccxiii}

*[undated]*⁶⁶⁰

Social discords are inherent in any society the members of which are not absolutely devoted to social good.⁶⁶¹ They would be annihilated by the growth of social virtue, under whatever industrial régime. Given only a moderate amount of social virtue, as now, and allowing for gradual increase of it.

What are those social and economic changes that will most diminish it. That is a matter of reason not social enthusiasm.

The socialist is generally one who claims to have a monopoly of social enthusiasm because he cannot be bothered to reason.^{ccxiv}

*[dated 25.9.06 and August 1920]*⁶⁶²

4. Life, Work and Art

Life without art is not worth living, says Morris. I say no. Affection, & the conscious pursuit of noble aims have made a thousand lives happy for only one that has been made happy by art; and their good has been unmixed with evil, whereas art has been a dangerous tonic, beautiful making like strychnine & arsenic; but in its misapplication more dangerous than they.

⁶⁵⁹ Text written in black pen on white folios, numbered in blue pencil pages 16-22 and in normal pencil 37-46. The text is very much amended and shows several corrections and additions.

⁶⁶⁰ Text written in normal pencil on a little piece of white folio pasted on a large blue folio. A large asterisk is traced in blue pencil above the text.

⁶⁶¹ Text deleted at this point: "That is common ground with all modern economists, not adequately emphasised by Ricardo, though he never says anything inconsistent with it. But his life was inconsistent with it".

⁶⁶² Text written in red pen on a blue folio. Added at the top of the page in black pen "§1 Aug[ust] 20".

These facts so much overlooked by many have for that reason all the more influenced the resolute & perhaps even stern men, who have given a tone to economics: & have caused them perhaps to see things a little out of proportion⁶⁶³[.]

An age in which plastic art is great is likely to be followed by an age in which art is fashionable. And hitherto when art has been fashionable society has generally become vicious: and a vicious age is always the beginning of a long period in which excitement is substituted for happiness, and the alternate fever and despondency of ill related passions takes the place of the tranquil & peaceful bliss of honest earnest domestic life.

All this to lead up that a man has no right to make things ugly or to be ugly[.] That a railway may not be ugly: nor a factory without need, that a healthy spirit of emulation is the best: but that when a parasitic race of greedy money making men push down prices by destroying collective property in beautiful objects, there is a *primâ facie* ground for interfering. This applies to access to beautiful scenery. Competition as spoiling beautiful scenery.

Much nonsense [...] ⁶⁶⁴here. It is not certain that a railway is ugly: every new scar is an evil. The most picturesque things in nature are the results of terrible convulsions over which time has thrown a healing *prize*⁶⁶⁵.

In judging old things, we dwell on their beauty, in judging new only on their faults. We always talk to a past age as the China man does. For we speak always of his neighbours wife as a beautiful and noble lady your wife: & of his own as a ugly old hag.

All that is sad. But we have lost through our hurry. It is the hurry of competition more than its definiteness & deliberateness of purpose that is injurious to art & to social life.^{ccxv}

[dated 20 February]⁶⁶⁶

Decline of monotony in modern life[.] Progress

Pigou W[alth] & W[elfare] p. 15n⁶⁶⁷ quotes Smart against me in regard to

⁶⁶³ Written as a symbol (: : "). Close to this symbol is added: "Expand".

⁶⁶⁴ Unreadable word.

⁶⁶⁵ This word is unclear and our transcription uncertain. The word is not even transcribed in Mary's copy of the text (see the following footnote), for she found it unclear and represented it with "?".

⁶⁶⁶ Text written in black pen on white folios. The same text was transcribed by Mary: the pages with the transcribed text are in folder 5.12, according to the Marshall Library Archive numbering.

the compatibility of monotony of modern work with variety of life. (See Smart, *Second Thoughts* p. 107⁶⁶⁸)

I think that in considering Progress my position should be developed (without reference to criticisms): & the thesis should be maintained that:

- i) agricultural life in the summer (especially in harvest time) is now very much what it was
- ii) life in factories anywhere, but especially in cities, is full of variety all the year round (in fact excitement is sometimes pushed to evil entrances)
- iii) the most monotonous occupation I know is walking in the dark. I have found it the best time for thinking[.]^{cxvii}

[dated 22.12.21]⁶⁶⁹

Assumptions

Our true aim is the elevation of human life, the making it full & strong[.]
(Life all round, individual and social, moral and religious, physical and intellectual, emotional and artistic)

Machinery, material, intellectual and social, gives power; and can be made conducive to life;

But the use of machinery tends to make man himself mechanical and is so far destructive of life.

Question proposed for discussion

Can any general rule be reached in support of changes that will on the balance improve the quality of life, make it full, strengthen it; and are therefore to be desired: what do not and are an evil?^{cxvii}

[undated]⁶⁷⁰

⁶⁶⁷ In fact Marshall's reference is erroneous: the book is not *Wealth and Welfare* (1912) but *Economics of Welfare* (1920), where, on page 15 fn.1, Pigou quotes from Münsterberg, Marshall and Smart. Marshall maintains that monotony of life is the important thing, and argues that variety of life is compatible with monotony of occupation, insofar as machines take over stressing forms of work, with the result that "nervous force is not very much exhausted by the ordinary work of a factory" (*Principles of Economics*, p.263).

⁶⁶⁸ W. Smart, *Second Thoughts of an Economist*, 1916. The book is recorded in Mary Paley's catalogue.

⁶⁶⁹ Text written in black pen on a blue folio.

⁶⁷⁰ Text written in black pen on a white folio numbered page 1.

CHAPTER II

IDEAL AND ATTAINABLE

1. Economic Ideals

1.1. *What are Ideals*

Ideals.

Not comfort, not even absence of pain, but life⁶⁷¹

Why economics is worth study is

(i) because⁶⁷² money: i.e. command over things is the sinews of war and that is the arbiter of independent national life[.]

(ii) because⁶⁷³ though the poor are naturally the offspring of the weak yet the very tendencies of modern science which discredit the old ruling doctrine of heredity from immediate progenitors; and on the whole there is a vast amount of life to be educed from the masses: provided they have money enough[.]

If the actions of all men were governed by an eager and wholly unselfish desire to promote the commonweal, the benefits of rapid industrial progress might be attained without the evils which now attend on it. Every one would then give himself generally to tasks which demanded all his abilities, and would pass from one to another as soon as he learnt that the change was for the public good: and if at any time there were no work to be done that was of as high a rank as that for which he was fit, he would without demur take to some of a lower rank. He would draw from the common stock in proportion to his needs and not in proportion to his services, and he would have no motive to decline any work for which he was needed; and thus the most rapid industrial progress would be consistent with employment as continuous as seemed desirable, after a philosophic survey of the relative advantages of increased material

⁶⁷¹ There is a large asterisk by this phrase+ α .

⁶⁷² Written as a symbol.

⁶⁷³ Written as a symbol.

comfort, and of large leisure nobly used.

An absence of friction with regard to employment has perhaps been attained for a time by a few socialistic communities, and under the Jesuit rule in Peru. But such societies have neither lasted long, nor led industrial progress. More enduring political structures, in which unemployment was not a prominent evil have been those in which an energetic minority, strong in arms, have ordered the work of multitudes of slaves or serfs: for then, except where custom ruled to the contrary, no one long remained idle, if there were any work, however much below him, to which he could be put. And some survival of these conditions could be seen even in the strenuous North of England not long ago: for agricultural labourers used to insure themselves against lack of employment by taking service for [...]^{674ccxviii}

[undated]⁶⁷⁵

The ideal is not comfort but life, vigour. The comfort of the masses is to be thought for: they ought not to [be] robbed of their sugar, or their tobacco[.]

But it is their life, the physical mental & moral vigour for which we ought to care[.]⁶⁷⁶

Why endure slums?

Why endure the enervating dread of the workhouse[?]

Why endure the narrow range of ambition for great action, which is the lot of most[?]^{ccxix}

[undated]⁶⁷⁷

Ideals

Work is not a punishment for fault: it is a necessity for the formation of character and, therefore, for progress[.]

The difficulty of supporting life for a population too dense to live on wild game and wild fruits, caused work to be necessary, for comfort and even for existence: that is it demanded serious strenuous work as a condition of race survival. Incidentally – though not by accident – it gave “back bone”

⁶⁷⁴ Text missing.

⁶⁷⁵ Text written in black pen on white folios. At the top of the first page a large asterisk and a large “α” are added in black.

⁶⁷⁶ Text deleted at this point: “It is we economists and we alone who can decide to dwell straight [on] such questions as:”.

⁶⁷⁷ Text written in black pen on a white folio, numbered page 2.

to the character of man.

Beings may exist who have developed character in some other way: and man's necessity for work may prevented him from discovering that way. It would therefore be wrong to say that character cannot ever and anywhere have been formed by conditions in which work was not essential to continued existence: but we have not (apparently) any clue as to the nature of these conditions.

Of course strife – if on too small a scale to be called war – can create character in regard to certain limited functions: but, even if it were not destructive, it would not have a range of action in the creation of character, which could approach to that of work.

If these notions should stand the test of time, and be developed, [it] may appear that economics – the study of work as a means of life and as an expression of life – may have a claim on the attention of idealists, other than that which is common now; and which may perhaps be expressed thus:

“Man-kind's opportunities for higher development require an increase in aggregate energy proportionate to their numbers (even when population is not excessively crowded) in their aggregate energy.

Thus in addition to (not in place of) ordinary definitions of economics, it may be described as a study of the way in which man's wants have endowed him with the energies and qualities of character[,] mind and body, by which he has gradually risen from savagery to a high state[.]

The sudden, but evanescent, bursts of high thought and enterprise, of which Greek history is the most brilliant instance may seem to open out another route. But the decline of the leadership of first Greece and afterwards Rome suggests that labour is needed for the making of a race that has enduring strength of character – the only material on which high aspirations and the pursuit of ideals has ever been sustained for a long time[.]^{ccxx}

*[dated 6.3.22]*⁶⁷⁸

An ideal is like a distant haven towards which the [man]⁶⁷⁹ desires to make his way: but if he believes his way to be a straight line, he is likely to run on rocks or shoals[.]^{ccxxi}

*[dated 1922]*⁶⁸⁰

⁶⁷⁸ Text written in black pen on white folios numbered pages 1-5.

⁶⁷⁹ Written most probably in error “manner”.

⁶⁸⁰ Text written in black pen on a blue folio. In the margin of the page written by

Aspirations towards the ideal may indicate the ultimate goal of high endeavour: studies of the actual may suggest the most effective methods of approaching it. ^{cexxii}
*[undated]*⁶⁸¹

1.2 Economic Ideals and Tendencies towards their realization

Economic ideals and tendencies towards their realization

§1 Mankind have developed social life, with its duties and sacrifices, its resources and its aspirations, from the rudimentary basis of family life.

It is true that social adhesiveness and cooperation for the purposes of order internally, and of trade and war externally, have sometimes effected unity of organization and sentiment among people who were united only by geographic proximity; but as a rule community of blood has been the main cause of that unity of spirit, which first [creates] clans and then a nation. The spirit of patriotism has been a chief source of the progress of mankind; a man's love of his country, or even of his clan, has often been closely associated with a suspicious, and even hostile, attitude to those outside it. But the constructive force of his affections and his trusts has nearly always surpassed the destructive force of his dislikes and his distrusts.

It is conceivable that social life of a high order has been developed on somewhat similar lines in each some myriads of planets in systems, whose possible existence is suggested to us only by their central suns[.]^{682 cexxiii}

Mary in normal pencil we read "written one evening during a short holiday at Hunstanton (MPM)".

⁶⁸¹ Text written in black pen on a white folio: on its reverse is written "This § seems not to carry far: and the statements made in it as to changes in the relations among various strata are perhaps not the same as when Labour Commission experience and conversations with working men enabled me to speak on such subjects. It must be kept: but not used, unless I am able to get in touch again with labour 22.12.22".

⁶⁸² [Marshall's footnote:] "We call them "fixed stars"; but their apparent fixedness may of course result from the fact that their distances from us are very great, relatively to such transverse movements as they have made since the technique of our astronomical instruments and observations has made a near approach to perfection."

*[dated Wool 2.7.21]*⁶⁸³

Economic ideals

The adjustment of human efforts to the satisfaction of human requirements. Its methods, its limitations, and its accomplishment

A The extent to which education and opportunity direct each sort of individual effort to those routes on which it can be most effective for the general good[.]

B The extent to which organization turns individual faculties and efforts to the best account for the general good.

(In A & B the modes of measurement available are to be noted; and their efficiencies weighed)

C Suggestions for improvement by means, which do not demand more (i) ability, (ii) energy (iii) unselfish devotion to general weal than can be expected of human nature, (as it is, or may be made by adequate education)[.]

(This points towards “the Economic Religion”: which claims merely to be a development of Christian religion appropriate to modern resources of knowledge & of organization)^{ccxxiv}

*[dated Sea Vale 18.8.22]*⁶⁸⁴

1.3. The Ideal and the Attainable

The ideal and the attainable

The ideal opens out quests for new attainments: the limits of the attainable warn against the wastes of undisciplined dreams as to the future. Both the positive and the negative side of this study are needed for progress, that is secure against inviting retrogression.^{ccxxv}

*[undated]*⁶⁸⁵

⁶⁸³ Text written in black pen on white folios numbered pages 1-2. At the top of the page is written “Book V”.

⁶⁸⁴ Text written in black pen on a large white folio. At the top of the page is written: “Proposed. To make the conclusion turn around”.

⁶⁸⁵ Text written in black pen on a blue folio.

Attainable ideals[:]

- Rus in urbe, urbs in rure⁶⁸⁶
- Variety in life, even when hands are monotonously at work
- A right economic government by the people of their governors
- Equal early opportunities: graduated later:

opportunities

Stimuli

Fruitions

- Steadiness of employment; provision against unsteadiness
- Group unselfishness
- Struggle without ferocity

Our aims are to educate

intellectual faculties, sympathies, power of imagination, to make academics real, and businessmen idealistic [.]

Idealism should underpin all that we do, but not be put into the front.

We should strive to make men interested in ideals; but not to shape their ideals and above all not to thin[k]⁶⁸⁷ that a brilliant explosion of gas is a substitute for hard patient work. Gas is kept out of the examination: but the use of hard thought in working towards the realization of ideals is made prominent.^{ccxxvi}

[dated 7.4.03]⁶⁸⁸

The harmony resulting from the free play of self-interest, untrammelled by combination or monopoly, would indeed be nearly perfect in a community of independent artisans. Let us suppose that all their various occupations were of about equal difficulty, none of them requiring any specially prolonged training; that all the simple implements and other appliances required by each was of about the same cost; that each member of the community provided from his own land the timber, hides, wool, other raw material needed for any work; that every occupation was open to every lad. Finally let us suppose that changes in the relative demands for different services being slow, the flow of labour into or from any occupation that had become a little more or a little less attractive than the average would be quick enough to prevent the establishment of any

⁶⁸⁶ "Countryside in town, town in countryside".

⁶⁸⁷ Marshall actually wrote "thing".

⁶⁸⁸ Text written in black pen on white folios.

considerable differences in the earnings to be got in different occupations by workers of average or normal efficiency; that is by workers who applied average or normal strength, judgment, and manual dexterity to their work with equal energy and steadfastness. Under these conditions any one who gave out some hide, with an appropriate amount of oak bark to a tanner of normal efficiency to be prepared for making harness, or boots, would under the influence of competition pay him for each hour's work aided of his hands and his simple plant, about the same sum in grain, or money, or "labour-notes" as would be paid for a similar hour's work to a similar worker in any other industry, including his own. When he handed on part of the leather to be made into harness or boots, he would remunerate the harness maker or the boot maker at similar rates. Thus if thirty hours work (of normal efficiency) were spent on some of his leather from the time when it left him, to the time when it came back to him in the form of a pair of boots, he would need [to] give up in return the product of about thirty hours of his own labour, supposed to be of normal efficiency and aided in like manner by his own simple implements & c. He would therefore be fairly sure of reaping his share of any improvement in the methods of production that might be gradually affected. If twenty five hours work, instead of thirty, of a tanner and a boot maker combined would suffice to convert a part of his supply of hides into boots; then he would get the work done for him at the expenses of twenty five, instead of thirty, hours of his own work. He might suffer seriously with others from general bad harvest: and even the slight changes in the methods of production and consumption, which would occur in his quiescent world might alter a little for a while the competitive value of an hour of his work relatively to that of a tanner or a bootmaker etc: but in the main his sectional interest would go with the national interest[.]

Of course some men might be more eager for material comfort and relatively less disinclined for long hours of work than others. But, such differences in disposition being left out of account, the automatic organization of national industry, free from malignant combination on behalf of particular interests, would tend to cause all work to be carried up to that limit, and its product to be distributed in that way which would cause the Maximum Aggregate Satisfaction – to use a phrase which has played a great part in economic discussions. That is to say, when any additional work devoted to, say, bootmaking, would yield a result which was in slightly increasing demand and was therefore a little more valued than equal work in other occupations, labour would drift towards it; and meanwhile those engaged on such work would be drawn to extend their working hours a little, till equilibrium was reached: and conversely if the

demand fell off, labour would drift out. And of course each one would do just as many hours work in the week that his discomfort caused by the last hours work (whether devoted directly to satisfying his own wants, or to producing something that would be exchanged for the product of an hours work by another man) was as nearly as possible balanced by the benefit which he derived from it.

Special treatment would be needed for sickness and other disabilities: but, except for them it appears that such an adjustment would be ideally perfect. There would be no room for friction; there would be no need for elaborate reckoning up of costs, or laborious thought spent on subtle contrivance. Each thing would find its own level as it were by simple gravitation. Its ease and efficiency would be superior to that of a system of adjustment planned and controlled by automatic authority; first in the same way, and for the same reason as the water in several tanks, from which it was being drawn in different directions, can be kept at the same level by connecting pipes through which it can flow automatically, than by the best arrangement of attendants with brackets to take water from the fuller tanks and pour it into those which are the more empty: and the significant fact may be noted in passing, that nearly all those communistic experiments, which have any measure of practical success; and nearly all communistic schemes which have been thought out thoroughly, have avoided the main difficulties of the industrial organization of the real world, by dealing almost exclusively with conditions very similar to those which have just been discussed, under which Nature unaided by contrivance would do nearly all the necessary organizing work.^{cxxvii}

[undated]⁶⁸⁹

⁶⁸⁹ Text written in black pen on white folios, numbered pages 24-32. Added at the end of the text in blue pencil: "Leave a line Vacant". This text was published by M. Dardi, 2010, in *Marshall Studies Bulletin*, with some differences with respect to our transcription. The greatest difference is in the final part of the text.

In his transcription Dardi also uses the text in two pages dealing with an analogous subject. We decided not to put that part in the main text here because the numbers of those pages (9-11) are not consistent with the others. Moreover the text seems to be more consistent – in terms of subject and indeed pen and ink used - with another part included in another folder (5.7). The two texts are presented together here (see below 3.3. *Experiments of Social Order*).

2. Utopia

2.1. Features

Utopia

If Utopia is ever well set up, its citizens will probably wonder at the wastes of effort, which were involved in earlier times by selecting as the basis of currency, commodities that could not be acquired in large quantities without excessive labour: the fact, that this difficulty of acquisition was a chief recommendation of gold and silver as the bases of currency, will then be explained only with difficulty by learned men to the serious student. They will point out that, so long as human nature had not obtained complete command over itself, there was always a danger that well conceived plans would be set aside under the impulse of sudden difficulties; especially those arising out of the (at that time) obsolete foolishness of wars among great nations. They will perhaps contrast the clumsy arrangement of basing currency on gold and silver, with the clear-cut simple plan of printing currency on some inexpensive material; and so adjusting its quantity to changing economic conditions, that its general purchasing power is kept steady.

They may observe how, as late as the twentieth century, mankind had failed to reach agreement as to the merits of two definitions of general purchasing power: in so much that some students had desired to define it as the power of purchasing a given amount of material products of various kinds; in spite of the obvious fact that as civilization progressed manufacturing processes became easier and more effective, while raw products generally became more difficult of attainment. In regard to the suggestions that the standard of uniform purchasing power should have regard to quantity of effort required, rather than to quantity of enjoyment obtained; and that the supply of currency should therefore be so regulated that the average remuneration of a given amount of labour of standard quality should be taken as the unit of general purchasing power. They may point out that Adam Smith had implicitly favoured this second suggestion: but that the century and a half after he wrote was increasingly occupied with statistics of commodity-prices, adapted to the requirements of the first suggestion. Perhaps they will be able to show how a compromise between these more or less divergent aims gradually obtained general approval; and how a currency had been set up which responded, more or less automatically, to general advances in the technique of industry, on the one side: and on the other side to the fundamental opposition between the ever increasing demand of mankind for raw products both agricultural and mineral: if they are able to record a nearly complete victory over these

great difficulties in the region of pure thought; they may regard with comparative indifference any partial failure that may still have to be recorded in attempts to discover that material for currency, which Jevons and others desired. But they may yet be able to point to one whose hardness durability, cleanliness and other merits fit it well for receiving impressions of numbers or other indications, representing the number of units – called perhaps “minims” of value. Possibly they may record how this material, capable of being handled only by very expensive machinery, had been brought under international authority and distributed evenly among the several countries of the world, by the automatic processes of trade or otherwise; and how (subject to some differences resulting from frontier duties, permitted by international authority) the prices of different commodities were maintained in due proportions to their difficulty of attainment.^{ccxxviii}

[undated]⁶⁹⁰

Utopia

In Utopia every one renders the best service of which he is capable to the community. The return which he receives is not in proportion to the value of his work to the community: it is simply adjusted to his needs. Those whose work is fatiguing fare better than those who do lighter work of a more difficult kind and requiring higher faculty. But a capable artist or designer of machinery receives choice food, together with freedom both from manual toil and disturbances of all kinds; in order that his work for the common weal may be as high in quality and as large as is possible. Each rejoices in doing his best on behalf of all. Those, whose muscles and digestions are strong, rejoice in the freedom from severe toil which is arranged for those who are weak: and they gladly consume relatively coarse food; while weaklings whose best efforts for the common good are of relatively small service, receive choice food adapted to their feeble conditions.

Utopia does not require a Government. It relies on its wisest members to counsel the organization of work and the distribution of tasks among the citizens in accordance with their several tastes, abilities: each is willing to devote his energies to the work for which they are most appropriate; and to

⁶⁹⁰ Text written in black pen on white folios numbered pages 39-44 and 7-14. The text is very much amended. The pages are bound to a blue folio on which is written in black pen: “*Utopia”; then, added in the margin by Mary in normal pencil: “This was rejected from Book III ch II of MOCC, after much hesitation (MPM)”; finally, added by Marshall in normal pencil: “It might be put into the big box on Progress”.

be rewarded in proportion to his needs. Arrangements of this kind have been conceived and cherished by many men in every age: they have often been shaped by particular theological doctrine. But they have always been in substance expressions of “religious” fervour: that is fervour, which is consistent with every large tendency of theological doctrine, but is itself an aspiration towards kinship with the Spirit of the universe[.]^{ccxxix}
[undated]⁶⁹¹

*2.2 Ye route to ordered progress towards Utopia*⁶⁹²

Duke of Wellington guess what is on the other side of the hill.⁶⁹³
Economists guess what is on the other side of the decade, the generation, the century.

Cultured life for all who care for it. A world population considerably greater than the present: hours of work relatively short (reproduce previous suggestion as to break of main body of work for humans, machines to work all through). Education to be real: the best thoughts of all past generations, as well as the present, to be brought to bear on youth. Their education to be directed mainly to developing the faculties which have always been in some degree specialized to them: ditto for women. (For monogamy is priceless: and though Nature can defend herself pretty well against attempts to refashion women on the model of man, yet the attempt tends to delay the solid progress upwards of men and women.[])

Womanly men – among whom I would include all whose only ambition is to do things that would be done equally well by women to be discouraged: and to be shunned by those who control occupations in which their special faculties are of little avail. But recognition to be given to the fact that the full development of women’s highest qualities is as important to human progress as is that of men’s qualities.

Saving to be special duty of the State: An Æcumenical Council to control force, of which the chief purpose should be to enable the population of each country, and each individual in each country to develop special

⁶⁹¹ Text written in black pen on white folios.

⁶⁹² Title as in the original manuscript.

⁶⁹³ A well-known phrase which Arthur Wellesley, the First Duke of Wellington, came up with in conversation with John Crocker and his wife in 1852 “All the business of war, and indeed all the business of life, is to endeavour to find out what you don't know by what you do; that's what I called "guessing what was at the other side of the hill”.

faculties in their highest degrees. Work to be not only the means of life: but to be so ordered as to elicit the highest and fullest exercise of the faculties of each man & each woman.^{ccxxx}
*[dated 27.4.22]*⁶⁹⁴

3. The “Summun Bonum”: Work for Ideals

[Ye Summun Bonum⁶⁹⁵] lies in pleasurable exercise of faculties especially such as are of a high order. Necessary conditions for this are:-

1) An element of idealism, which generally includes some unselfishness & often some self-sacrifice for the benefit of other individuals, generally relations, or of groups.

e.g.

an industrial group (T.U.s)
 a locality
 a country
 posterity in general

2) Comforts as well as necessities: but the chief benefit derived from these is in connection with

α unselfish benefits to relatives & others
 β the satisfaction derived from success

If everyone's wealth was doubled by changes which obviated the necessity for personal exertion & self sacrifice, the world would be poorer.

The successful pursuit of material well being is pleasurable, partly as an evidence of power to one-self & to others: but of it – as of ambition – it may be said with some truth

– Dulcis Quidem est: cum adest vero angit⁶⁹⁶.

Thus it remains that wealth – as distinguished from a competency – is valued more for the power & distinction which it gives. Now as much distinction can be got by rowing a mile against a strong stream in 15 minutes if at least 15½ are taken by other competitors as by rowing it in 5 minutes with the stream if several competitors do it in nearly the same time.

This is the logical basis for heavy taxation of private wealth, provided the proceeds of the tax can be well spent on building up noble forms of public

⁶⁹⁴ Text written in black pen on blue folios, numbered pages 1-3.

⁶⁹⁵ Words written and then deleted.

⁶⁹⁶ “It is indeed sweet: but when it occurs in fact it afflicts”.

wealth, which will be turned to good account. But this proviso contains a chief difficulty. Public wealth is liable to be plundered corruptly & turned to ill account. Moreover, while a private capitalist has a free hand, & often does best for the world as well as for himself, when his actions appear unwise to the multitude, the public official who shows enterprise & originality is often rated a nuisance by his associates: and any ill-fortune that attends his enterprise is used as a flail for his back.

No doubt collective enterprise has now several advantages which it had not in earlier times. For (a) big undertakings need J[oint] S[tock] Co[mpany] resources: & their administration is open to a considerable part – perhaps half – of those to which government enterprises are open And again, though it seems to be true now, as formerly that Government control corrupts business, & Government business corrupts Government, yet the forces of publicity now tell with considerable force in the direction of keeping Government business straight.

The general drift of all thus seems to be:-

Government business must extend & ought to extend: but its extension brings great evils: & ought to be opposed save when it can make out a strong prima facie case for efficiency & economy.

For its expansion is almost certain to lessen the total stock of creative energy in the country: & this evil – though not conspicuous at first – grows by what it feeds upon: & it may become a deadly enemy to progress.

Partly in order to widen the area from which capable Governmental administration can be selected; partly in order that the votes of the masses of the people, which are to Govern the Government, may be well advised; partly because⁶⁹⁷ it is a good thing in itself, popular education must be extended. It must be made more real: the Universities must (a) be more easily accessible to all & (b) more closely occupied with the problems of coming ages. The past is not to be neglected: but its main conclusions as to the purposes of learning, which were based on an absolute lack of any prevision as to the extent to which knowledge could be harnessed in the service of mankind. Art for the sake of art is a most worthy purpose of human endeavour and literature is perhaps the highest form of art: art of all kinds needs to [be] enlarged without stint. But, in a quite different plane, knowledge of nature is becoming the dominant power of the world: knowledge of what man used to think important before he recognized how completely his power was about to be enlarged by knowledge of nature, is of relatively little use.

⁶⁹⁷ Written as a symbol.

No doubt knowledge of human nature is a most important pursuit for its own sake, & as a means to the increase of power. But the human nature which was studied, was limited; partly because education was confined to the few, and the masses of the people were thought to have done enough if they had provided the means by which a narrow group of thoughtful people might use their higher faculties in comfort – that human nature is not worthy of study, except as a thing to be rid of – just as disease is.

Thus our ideals are:-

work for all, but not carried to the length of exhausting the strenuous intelligent energies (unless of course under the pressure of exceptional emergency). This is not a rule for the student or the artist: when a divine frenzy is on him, he must let it have its lead[.]

Of course ideal uses of opportunities will be rare. Comic & even coarse picture-palace entertainments, (or some advance on them by which the automatic reproduction of highly skilled speech & song are made accessible at low charges) are likely to have greater vogue than purely intellectual delights. But still real progress will be made if the coarser (& most socially expensive) pleasures of eating & drinking fall into the background relatively to those which exercise faculties of intelligence & thought – even if they be not of the highest degree.

And if there were no Law of D[ecreasing] R[eturn] in agriculture (to say nothing of mining) the world might ere long contain many thousand millions of human beings, in a high pleasurable exercise of faculties. As it is, Malthus' alarms are being pushed off by progress again & again: but they are never far out of touch with the possibilities of the future. He made a mistake by laying excessive stress on the niggardliness of nature & too little on the perfectibility of man. We must avoid his errors; but not fall into their opposites[.]^{ccxxxix}

[undated]⁶⁹⁸

4. Imperialism vs Anglosaxondom

4.1 General aspects

Imperialism In general

So far as British Dependencies are concerned[.]

Have two chapters[:]

⁶⁹⁸ Text written in black pen on white folios, in part on pages numbered 1-13. Part of the text is written with a different black pen on unnumbered folios.

- α the purely business side
- β the ideal or religious or spiritual side

α The Business side

Under α, demand that colonies recognize their share of all the expenses of empire including especially South African war: if it be true that future goods are of less value to them in comparison with present than to us, then take some security that they will help us after we have helped them. Business is business.

If however it be said that our relations to them should not be altogether on the business side, which is true, turn to treat the matter under β[.]

Goodwill of our colonies is a business asset: but that of the countries and especially USA is a more valuable one.

As to India: on the business side she is not directly a source of strength. But if we give her up through cowardice, that would be the knell of empire; and if we retain her because we have earned her gratitude, and the more reasonable of her people are convinced that we do not consciously subordinate her good to ours, and do try honestly to make sure that we are not, then our relations with her will be a source of good will.

β The Ideal side

Sacrifices for sake of cordiality are worth having. U.K. cannot be very strong materially in the future as compared with U.S. perhaps not as compared with other countries as yet underdeveloped whose area is much larger than hers[.]

But she may be strong spiritually.

For that the touch stone is her treatment – not of her self growing colonies – but of her other dependencies.

The unselfish rule of India is the touchstone of England's greatness. And the colonies have too much of English manliness in them, not to respect us for considering weak India on a level with them more independent selves.

To allow her to treat our cottons as our self-growing colonies do, would be a great blow to Lancashire. But certainly part of the Indian revenue ought to be devoted to developing Indian industries especially

i) such as are suitable to her climate

e.g. silk

ii) directly subserve her wants

e.g. coarse cotton

and above all water power for direct use and for electricity[.]

Don't try to keep hand looms going, except for purely local purposes, or for very fine work or for that cotton is not a good fibre[.]

Help scientific fading and sewing of silk. Dutt India in Victorian age⁶⁹⁹ p. 520 quotes Morals and Progress 1901-2 p. 227⁷⁰⁰ that there is scope for a revival.

Recollect that in industries in which machines are very expensive, quickly changing, nearly automatic, India is and must be at a loss all round in comparison with the West.

Tea. Try to get varieties that appeal to tastes other than those of hardy factory girl

(Dutt C.c. p. 526 says Government did run some iron mines at a loss)

Go for developing nascent industries which have yet no wise pulling force: and after a time fix a gradually descending rate of subsidy.

This is less necessary in India than elsewhere in so far as Government can't be lobbied by election agenda[.]

This is more necessary in India than elsewhere is so far as Indian patriotic sense is still, underdeveloped.

Watch countries with similar climate, e.g. [N]orthen Italy.

Recollect that India's great misfortune, as well as her great good fortune, has come from her being made a Continental unit before She contained local units. Patriotism for India has not been able to develop out of patriotism for a part of India. The mischief was mainly due to (a) early internal quarrels (b) the Mohammedan empire c) the Maharattas^{701 ccxxxii}
[dated 25.11.04]⁷⁰²

In relation to Anglosaxondom v[ersus] Imperialism

Consider the disintegrating movement of the growth of nationalities within nations especially UK + US[.]

Consider also the tendency towards a racial distinction of particular industries in US[.]^{ccxxxiii}

[dated 12.9.4]⁷⁰³

⁶⁹⁹ R. Dutt, *India in the Victorian Age. An economic history of the people*, 1904, London: Kegan Paul, Trench Trübner & C. The book is recorded in Mary's catalogue.

⁷⁰⁰ Moral and Material Progress and condition of India, 1901-2, p. 227.

⁷⁰¹ Name of a caste.

⁷⁰² Text written in red pen on blue folios, numbered pages 1-8. Written at the top of the page is "N [which stands for National Industries] IV".

⁷⁰³ Text written in red pen on a blue folio.

4.2. Nationality: Its coherence amidst incoherence

Nationality

Its coherence amidst incoherence

Its honesty amidst self-contradictions

Napoleon “created” Germany; without him there would have been no enthusiasm in German unity in ideas, with purpose more or less clearly recognized of unity in action: (but indeed unity in action was not an ideal among men of affairs till a generation after ideal unity had dominated the German youth)[.]

It was Napoleon I that drove Austria out of the Bund; though German Austria would have been welcomed in it.

But Napoleon III “erected” the desire for a capital of Germany, even though it had to be in Prussia the not-well beloved.

British crudity in taking a German Mail Ship prisoner during the S[outh] Africa war, and boasting of Germany’s impotence to react the insult, “created” the German Navy power.

Russia’s ambitions aided by the German Navy League “created” warm friendship between Japan and England[.]

The German Navy League + Japan created the US navy[.]

German Navy League supplemented by Japanese and US naval expansion “created” an Australian, and to a less extent a Canadian enthusiasm for closer union with the Mother country; of a much warmer and more solid kind than that which had shown by allowing UK the honour of paying Australians and Canadians for fighting in the professed cause

But though events governed the prominence of nationalist sentiment and “created” its action, that is only as the spring weather “creates” the oak out of the acorn that has been lying on the ground during the winter[.]

There never is a unity of national sentiment. There are always in every nation people of strong and independent character (for good and evil) whose desire and aims are developed by thought and resolute purpose – selfish or altruistic; provincial or national or cosmopolitan; idealistic or narrowly practical. But their unaided influence on the general sentiment is seldom great, even if they try to exert one, which they more often do not.

So long as the weather is against them, they are like acorns lying on a frosty ground.

But when the average, dull, unemotional, receptive but not originaive man gets to see the practical importance of a bulwark against a danger, and of a new international friendship, the newspapers respond (they are indeed written for the greater part by men like himself): Then the side which had

been in the shade is brought into the light. Quid versus and up to data people wish to be among the first to worship the rising sun. Thoughtful people see that there is good in the new movement, though not unmixed with evil. They help it at first: and even when they think it has gone far enough they seldom exert themselves much to hinder it: and even if they do, they generally affect little till circumstances help them. Here it arises that:

(1) A nation of honest and consistent men may speak with a voice which is not consistent; with an earnestness which, when judged by its actions in the recent past or in the near future, seems sordidly selfish and virulently hypocritical.

(2) Men of genius in action – a St Dominic or St Francis – an Alexander or a Napoleon – a Pericles or a Bismarck – a Luther or a Garibaldi are fashioned by their age to a much greater extent than they fashion it.

(The same is true to some extent of thinkers and artists. E.g. Mozart, Raphael, Demosthenes, Byron: and even of Watt, Stephenson, Faraday and Darwin (I don't venture on non-English names), but not of Shakespeare or Newton).^{ccxxxiv}

[dated 8.8.09]⁷⁰⁴

4.3. Ethics of international policy

Ethics of international policy

“Might is right” as between citizens of the same well-ordered country, cannot lead to grievous abuse, save in a few relatively rare cases; because the injured weakling can in most cases get redress on protection from authority.

But in an ill-ordered State, the strong man may wreck the happiness of many if he has not the “fear of God” before his eyes.

Hitherto the strong nation has been in the position of a strong man in a State, where no public protections are given to the weak: the restraint on its strength was the craving for a noble life, strengthened in various degrees by the desire for the esteem of other nations, and perhaps by the fear of definite evils which might follow from their reprobation.

But as a rule nations did not set themselves to judge the conduct of others: international ethical judgments were not carefully formed and made the

⁷⁰⁴ Text written in black pen on white folios in blue pencil, pages numbered 1-5.

basis of effective systematic action.

Probably the dangers incurred, and the greater dangers suggested by Germany's action in this war will set nations generally on forming such judgments. The process has already begun.

Germany is finding that her cynicism is making a variety of enemies around her. The form which "the fear of God" is taking increasingly in the present age is the fear we (and our children) will suffer from the accumulating moral wrath of others. Individuals have short memories, nations have longer. The wrong doing of Germany in this generation will make her children weaker on the next. Patriotism is the award motive of the willingness of Germans to march on the cannon's mouth: but patriotism does not mean the desire for the well-being or glory of one's country at the moment only; it extends to coming times even in the minds of those who seldom look very forward in regard to their private affairs.

Germany has been injured a little by reports of others as to her doings in Belgium & c. But the chief witnesses against her have been her own people – Treitschke, Bernhardi, the Kaiser & c.: a man is seldom condemned on the testimony of others; a nation never is: there is no aftermath from the testimony that Germany has given against herself.

The fact that a single country can have a line of steel and fire stretching from Antwerp to Switzerland; and another as long, though not quite so continuous on the East, is an indication that the ultimate arbitrament of international differences must lie either with vast individual nations in arms, or with international public opinion. Hague tribunals & c. may help as mouthpieces of that opinion: but it must be an active, conscious, persistent force in itself.

Every nation is bound to fear, if it is doing anything to set public opinion in hostility against it. Those who form the effective opinion of the nation at any time are responsible for it in regard to present issues: and in regard to those of coming generations. A fear that we may leave our children a less goods heritage, than we may have done, of the esteem and affection of other nations is a fear of God, a fear into national neighbours.

Have we given any colour to the statement that our hostility to Germany is based in part on envy and greed?

No doubt our opposition to Germany's expansion has been partly caused by her own statements that she wanted ports for military purposes as well as for those of peace. But we have not made it clear that we have no desire to check her economic expansion, in so far as we can think that she will not beat her scythe into a sword.^{ccxxxv}

[dated 28.11.14]⁷⁰⁵

4.4. *Imperialism and centralization*

Imperialism and centralization.

That which has been characteristic of imperialism is the control of the affairs of a large territory from a single centre; and therefore, in effect by relatively few people. So long as Britain's Colonies were willing to leave London to control all their external relations, the term was intelligible. But now that they claim such rights as the exclusion of natives on India, the centre is left with burden and responsibilities of empire, without freedom of action in matters in which the continuity of the Empire may be at stake. If we take the alternative of saying – external affairs are Imperial, and must be governed by an Imperial congress – then must follow: -

1. An imperial budget collected by Imperial officers in all ports British and colonial (it would almost necessarily be ports only, at all events at first)[.].
2. The possibility that a militant minority of British supported possibly by the Irish for the sake of vexing England and Scotland, together with most Colonial Representatives declare war against, say, Germany on some Pacific issues. The result would be extreme danger and probable loss to Britain, while the colonies were (for the term at least) little discommoded[.].
3. The probable giving up of India. For the colonies would not allow India to be really represented: and anti India legislation would be increasingly probable and dangerous[.].

On the whole the rule that children take all services from their parents as their natural due: but make an immense fuss as to anything that they do in return, seems to apply to countries more than to individuals.^{ccxxxvi}

[dated 27.12.07]⁷⁰⁶

⁷⁰⁵ Text written in black pen on blue folios, pages numbered 1-6.

⁷⁰⁶ Text written in black pen on white folios, only one of which numbered – page “3”. At the top of the first page is written in black “Book IV” and added in normal pencil in the margin: “Rather beyond my province. But important.”

4.5. *Anglosaxondom and Ideals*

[Industrial supremacy requires a large physical basis. It may⁷⁰⁷] come to the Anglosaxon race and remain with them. It cannot come to the British Empire, because, as will be argued later on, even though that may become a political unity, it never can become an economic unity. But economic leaderships depend on quality⁷⁰⁸; and though quality itself does to some extent depend on quantity, yet England's resources are of sufficient quantity to sustain quality. Industrial leadership is then doing today what other people will be doing tomorrow and wishing they had done today.⁷⁰⁹ Sixty years ago England might measure herself against the whole of the world as regards the quantity of industrial energy and trained ability which were specially adapted for dealing with the current and coming problems of manufacture and trade. And though her total wealth was small in comparison with that of the rest of the western world, yet it was so mobile that she could perhaps a score of million pounds worth of capital into any specially promising enterprise quicker than all the rest of the world could. (It was therefore not absurd, though undoubtedly not very wise, that she should then claim a sort of industrial supremacy. But now the quantity of industrial)⁷¹⁰ energy and trained ability and of mobile capital available for new enterprise in the United States alone are greater than in the United Kingdom, or even in the British Empire. That of the Anglosaxon peoples together is perhaps equal to that⁷¹¹ of the rest of the world. Industrial supremacy may [...]⁷¹²_{cexxxvii} [*undated and dated*]⁷¹³

Ideals

A federation of the British Empire is a noble dream: but not the noblest: In comparison with a movement for drawing close the sympathies of the whole Anglosaxon race it seems to me devoid both of largeness and of

⁷⁰⁷ Text deleted in the original but consistent with the following part.

⁷⁰⁸ Text deleted at this point: "rather than quantity".

⁷⁰⁹ Text deleted at this point: "Industrial leadership is not industrial supremacy."

⁷¹⁰ Text between square brackets is deleted in the original manuscript but we include it here because it is consistent with the following part.

⁷¹¹ Text deleted: "of the United States".

⁷¹² Text missing.

⁷¹³ Text written in black pen on unnumbered white folios. In the margin of the three folios is added in red pen: "Qe [meaning "quaere" or "I question whether"] 18.8.03".

practical utility. The British Empire federated would be a mere congeries of payments, the lines of communication of which could not permanently be held open unless by the goodwill of the United States. (I have no knowledge of military affairs. But this issue is fundamentally economic; and I assert with the most absolute conviction that it will ere long be impossible for the United Kingdom to provide the economic basis of a fleet strong enough to control the traffic on the great oceans). The colonies have shown no willingness to bear a considerable part of the burden. And if the United States were unfriendly, Canada could not be defended.

If a glow of the world be shaded according to the economic strength of the several countries and their future naval strength and the United States be painted in the same colour as the British Empire, the result will be that as a coherent whole, comparable with United Germany. But if the United States be painted of the same colour as is assigned to England's possible enemies, the effect will rather be that of the series of islands which constituted Prussia early in last century.

Anglosaxondom would control the Pacific; and the dangers of the Suez Canal would almost have disappeared if even India could be reached in case of need by the Panama Canal. ^{ccxxxviii}

*[undated and dated]*⁷¹⁴

The German Zollverein broke down artificial barriers and made for simplicity. But a commercial union of a world empire would create some of the evils which that Zollverein removed.

In the United States the differences of interest between different districts brought together in the same economic Union are greater than in the case of Germany; because the distances are greater and those differences of climate which create permanent differences of economic aptitude are greater. But yet the population of the United States is one continuous whole; the Atlantic and Pacific shores of Canada will ere long be limited by an almost unbroken band of industry; and, even if the centre of Australia is destined to remain almost a void the several provinces will

⁷¹⁴ Text written in black pen on three unnumbered white folios. Some additions to the original text were made in red pen (as in the text here). Added at the top of the first folio in red pen: "These three pages ought not to have been omitted [in blue pencil]; though those parts in square [here in normal brackets in the text] red brackets are too strongly expressed and should be explained and mitigated. 15.8.03". At the top of the second and third folio "omitted" is written in blue pencil as on the first page.

merge imperceptibly with their neighbours along the sea coast. In America therefore, and even to some extent in Australia, the removal of tariff barriers is sure to be followed by an ever increasing circulation of the life blood of industry and trade. A new economic faculty or aptitude obtained in any one part of the Union is sure to be diffused over every other part, excepting only in the case of such industries as demand special climatic or other physical conditions.^{ccxxxix}
*[undated]*⁷¹⁵

⁷¹⁵ Text written in black pen on white folios, numbered in blue pencil pages “27” and “29-31”.

CHAPTER III

POSSIBILITIES OF ECONOMIC FUTURE

1. The Outlook

The Outlook

Human nature has probably been fashioned, in recent thousands of years at all events, by the need for effective industrial organizations. This implies:-

A Recognized demands for and opportunities for

I. A multitude of manual workers, whose relatively low faculty have rendered them content with hard manual toil and low remuneration ⁻⁷¹⁶

II. A relatively small number of men with some constructive faculty, and facilities for mutual intercourse ⁺⁷¹⁷

III. A much smaller number of men with some creative and much organizing faculty who pioneer ⁺⁺⁷¹⁸

IV. Capital – in the form of implements (including weapons) ⁺⁺⁺⁷¹⁹

V. Transport facilities (including telegraph &c) ⁺⁺⁺⁺⁷²⁰

VI. Natural resources fixed subject to IV & V ⁷²¹

The general drift of changes in demand resulting from

(a) the pressure of population on means of support

(b) the increase of industries that need { α much skill

{ β large capital

(c) materials (including food) which cannot be produced generally in sufficient quantities for the support of dense population without the aid of heavy long distance transport,

⁷¹⁶ “_“ added in blue pencil to the original text.

⁷¹⁷ “+” added in blue pencil to the original text.

⁷¹⁸ “+ + +” added in blue pencil to the original text.

⁷¹⁹ “+ + + +” added in blue pencil to the original text.

⁷²⁰ “+ + + +” added in blue pencil to the original text.

⁷²¹ “fixed subject to IV & V” added in blue pencil to the original text.

increase in demand

The results would have been disastrous had not there been increases relatively to increased population in (a) the faculties of machinery, (b) the quantity of machinery

+ = increasing relatively: ++ increasing very fast
 – = decreasing)

The continued diminution of I is a chief aim of human endeavour: But yet it might lead to discontent occasioned by absence of opportunities for the exercise of faculties if capital were not increasing at a much faster rate. Incidentally it is to be observed that the destruction of capital by war is an evil, subject to less compensation than the destruction of men: For the destruction of capital not only checks the growth of production; but also increases the share of the product of a-machine-plus-a-man which goes to the machine. No doubt taxation may restrain this tendency: but if it checks the growth of capital relatively to population, this check will not reach far. Therefore, the utilization of progress for the benefit of mankind must wait upon the diffusion of an understanding of the masses of the people that

- (i) a check to the increase of expensive plant threatens the increase of their material welfare[.]
- (ii) The government of the people by the people will be an evil to the people unless it makes provision for nearly as large an increase in the accumulation resulting from (say) 20 small incomes, as now comes from a single income of equal amount to those 20.
- (iii) [...]

“Work well done (should educate if possible)

Leisure well spent (should educate, that is always possible)^{722ccx1}
*[dated 8.9.20]*⁷²³

Thus relative progress – leadership – raises the value of man, at first in one trade, and afterwards in others. And increases employment.

Thou mayst - raises man

Thou shalt not - depresses him: though if one looks far a head, it may be

⁷²² The last two sentences were added in blue pencil.

⁷²³ Text written in black pen with some additions in blue pencil on white folios numbered pages 1-6.

wise to depress him as a discipline for later development.

Thou shalt not import

depresses prices a little at frontier but raises their duty paid
and then lowers the value of money relatively to man and things
but of man relatively to things[.]^{ccxli}

[undated]⁷²⁴

Improvement in the use of wealth needs more energy relatively to mere increase in its amount[.]^{ccxliii}

[dated 17.2.24]⁷²⁵

Tendency to put past quality high relatively to present, and forget faults of past while remembering good in short tendency to grumble at present – resembles popular belief that moon’s horizontal diameter swells as it sets. No considerable remedy is got by taking the mean of 100,000 observations.

It is not only that the hills of early childhood, if not revisited for many years, live in memory as mountains. A further point is that, as we grow old, we become fastidious, critical and sensitive to hardship. Instances – wooden seats on railways, coarse fat meat, bad candle light.^{ccxliv}

[dated 5.12.00]⁷²⁶

An old man should converse with young; because

- (1) they without effort see things in the proportions, which the world (more experienced than when he was young[]) has learned to be the best for the time at least[.]
- (2) they don’t know most of the things, which he ought to have forgotten, but still lumber up his mind[.]
- (3) they are easily diffident about things as to which he has grown into stolid habits of certitude: and though they may have a much larger stock of unwarranted and dangerous cocksureness than he, it is of a different kind from his; it does not tempt him astray, but rather warns him against going astray. Its warnings are part of the experiences of the world, now older than when he knew it well.

⁷²⁴ Text written in black pen on white folios.

⁷²⁵ Text written in black pen on a blue folio.

⁷²⁶ Text typed on a white folio. At the beginning “Retail Prices” is written as title.

They are implicit warnings to the old similar to those explicit warnings which the old give to the young.

It seems therefore very important that an old man should suspect himself of giving bad advice; should abstain from controlling younger people; should if possible vacate office rather early, being always ready to put his experience at the command of younger and more vigorous persons than himself: but careful nerve by authority to constrain them to go in his way, unless he has good grounds for knowing that the excess in volume of his experience is of more substantial valence than the excess in quality of their shorter experience.

The economic value of length of life[.] Individual experiences and world experiences

From the individual point of view any elongation of life in which happiness exceeds suffering (whether from pain, regret, disappointment, ennui and & c.) is a good.

But from the social point of view, in a world which is nearly filled up, longevity is advantageous only when its net benefit to the individual and the society combined exceeds that which would probably accrue to and result (in progress) from a more short lived race, whose upraising was of equal social cost.

Hence it follows that if the ratio of the periods of infancy + old age (in which the individual gives out less than he receives) to the period of effective work remains unchanged: and if costs and output are in the same ratios at similar proportionate ages, society has little to lose or gain from an increase in longevity.

But here it is to be remembered that the man born in 1950 has been taught by a world 50 years wiser and more experienced than one born in 1900: and that an increase in the average length of life may have the effect of diminishing the total quantity of effective experience which is available for the society; as well as in diminishing its spring and elasticity.^{cexliv}
*[dated 7.7.14 and 10.7.14]*⁷²⁷

⁷²⁷ Text written in black pen on blue folios, two of them numbered pages 1-2. At the top of one page is added in blue pencil "For X k".

2. Aims and possibilities

2.1. Aims

Our aims

Not enjoyment, but vitality: that will bring happiness which is not selfish and has no canker.

Some self sacrifice is needed: man has his, woman has hers. Neither can do the work of the other: if man shirks his part, or woman shirks hers, safety will be found for the world only in the ultimate victory of some cruder race, more true to nature, where man bears his burden and woman hers. ^{ccxlv}

[undated]⁷²⁸

Ultimate aims.

are as we have seen that:

Every one should work up to that limit at which any further exertion would cost him more than the equivalent of the value of his work to the rest of the world: account of course being taken of the fact that work which exhausts him prematurely is not in the public interest.

As a rule students do this under the impulse of love of their work, desire of the approval of others and especially of experts; together with, of course, a sense of duty.

Business men are influenced by similar motives, together with the love of money gains partly for its own sake and partly as a means of proving power. The great differences between the rewards which come to different men in business are a chief source of the present strength of these motives: and that is one reason for the relative barrenness of Governmental workshops and in regard to new ideas. Therefore increased stability of business would not be an unmixed good: perhaps it would not be a good at all[.]

The same is true of the unevenness of earnings of salaried and waged labour. Insurance against unemployment, if carried very far, might be a cause of social retrocession. No doubt, if war were impossible, most people might work less consume less and be happier than they are now: but even then the student and the inventor should be called on to do their

⁷²⁸ Text written in red pen on a blue folio. At the top of the page number "1" is written in blue pencil. Above the text a long line in normal pencil was drawn as if to delete the text.

utmost. As things are “Liberian” quietude (see *Economist* of 18.6.10)⁷²⁹ would be a cause of great danger to a single country. And in any case it is doubtful whether the man whom the employer is only too glad to get rid of the moment his business is a little slack, would not often enjoy life rather more if he exerted himself enough to know the pleasure of work.

Mountaineering is but a poor delight to a man who never climbs with all his might. Compare the following extract from an article in the *Times* (I think a Commercial Supplement in the Spring of 1910) as to the increasing output per head from Rend mines:

THE INCREASE IN EFFICIENCY HAS NOT BEEN CONFINED TO THE COLOURED LABOURER ONLY. THE WHITE MINER HAS REALIZED THE NECESSITY OF ASSISTING IN THE GENERAL FORWARD MOVEMENT, AND HIS OUTPUT OF WORK HAS STEADILY INCREASED. THE PERIOD OF DEPRESSION RESULTING IN MUCH UNEMPLOYMENT PROVIDED A MUCH-NEEDED COMPETITIVE FACTOR TENDING TO ELIMINATE THE INEFFICIENT. ^{cexlvi}

[dated 26.6.10 and 24.1.12]⁷³⁰

Ultimate aims

A that every one should have:

- a) Health physical mental and moral: this implies adequate food and warmth; and the exercise of affectionate interest in the wellbeing of relations and friends[.]
- b) opportunities for (i) healthy exercise of faculties (he should be able to say with quiet pride – I have done a good days work)[.]
- c) Scope of initiative[.]
- d) Recreation of a kind adapted to his faculties - beginning with skittles (under cover) rising to cricket and football; and the simplest yet almost fullest pleasure, walks by daylight or artificial light[.]
- e) creative work that exercise rare, high faculties[.]

⁷²⁹ “Three Negro Republics”, The Consular reports on the trade of Liberia, Haiti, and Santo Domingo, *The Economist*, June 18, 1910, p.1359. It says: “Liberia is a land which has never been developed. It is capable of development, if the natives could be induced earnestly to cultivate rice, cotton, copper, and so on [...]”.

⁷³⁰ Text written in black pen on white folios numbered pages 1-4. At the top of the first page is written “Book IV”; added in the margin in red pen is “Perhaps GA 24.1.12” and in normal pencil “Perfect stability not a good”. The text in small caps here was cut out from the article in ‘The Times’ which Marshall refers to and pasted on the page.

(a)-(d) should be available to all: (e) must be only for a few[.]^{ccxlvi}
 [dated 16.2.22]⁷³¹

2.2. Possibilities

Materials for Possibilities

The student of chemistry or physics may happen to make money by his inventions, but that is seldom the chief motive of his work. He wants *indeed* to earn somehow the means of a cultured life for himself and his family. *But* that being provided, he spends himself in seeking knowledge partly for its own sake; partly for the good it may do to others; and last, and *sometimes*⁷³² not least for the honour it may do himself. His discoveries become collective property as soon as they are made, and altogether he would not be a very bad citizen of Utopia just as he is. For it would be a great mistake to suppose that the constructors of Utopias from the time of Plato downwards have proposed to abolish competition. On the contrary, they have⁷³³ taken for granted that a desire to do good for its own sake will need to be supplemented by emulation or competition for the approbation of others.

Business men are very much of the same nature as scientific men; they have the same “instincts of the chase”, and many of them have the same power of being stimulated to great and even feverish exertions by emulations that are not sordid or ignoble. This part of their nature has however been confused with and thrown into the shade by their desire to make money. The chief reason why the scientific man does not care much for money is that in scientific work the earning of much money is no proof of excellence, but sometimes rather the reverse. On the other hand, in business a man’s money-earning power, though not an accurate test of the real value to the world of what he has done, is yet often the best available. It is that test which most of those, for whose opinion he cares, believe to be more trustworthy than the highly-coloured reports the world hears from time to time of the benefits which it is just going to derive from a new invention or plan of organising that is just going to revolutionise a branch of industry. And so all the best business men want to get money, but many of them do not care about it much for its own sake; they want it chiefly as

⁷³¹ Text written in black pen on a white folio.

⁷³² Deleted “often”.

⁷³³ Deleted “always”.

the most convincing proof to themselves and others that they have succeeded.

These are the very men for whom the older economists were most eager to claim freedom of competition as needful to induce them to do fully their high work for the world. But this seems to involve the error of running together and treating as though they were one, two different positions.⁷³⁴

The first of these positions is that industrial progress depends on getting the right men into *important* places, and giving them a free hand and sufficient incitement to exert themselves to the utmost. The second is that nothing less than the enormous fortunes which successful men now make and retain would suffice for that purpose. This position seems to be untenable.

The present extreme inequalities of wealth tend in many ways to prevent human faculties from being turned to their best account. A good and varied education, freely prolonged to those children of the working classes who show the power and the will to use it well, an abundance of open-air recreation even in large towns, and other requisites of a wholesome life – such things as these *can*⁷³⁵ be supplied by taxes levied *chiefly* on the rich, without seriously checking the accumulation of material capital, and with the effect of increasing rather than diminishing the services which competition renders to society by tending to put the ablest men into the most important posts, the next ablest into the next most important, and so on, and by giving to those in each grade freedom sufficient for the full exercise of their faculties.

It is quite true that where any class of workers have less than the necessities for efficiency, an increase of income acts directly on their power of work. But when they already have those necessities the gain to production from a further increase of their income depends chiefly on the addition that it makes, not to their power of working, but to their will to exert themselves. And all history shows that a man will exert himself nearly as much to secure a small rise in income as a large one, provided he knows beforehand what he stands to gain, and is in no fear of having the expected fruits of his exertions taken away from him by arbitrary spoliation. If there were any fear of that, he would not do his *best*. *But*, if the conditions of the country were such that a moderate income gave as good a social position as a large one does now; if to have earned a moderate income were a strong presumptive proof *that he had surpassed*

⁷³⁴ Text deleted at this point: “an error which seems to resemble in character the failure to distinguish adequately between the results of Protection in an old and a new country.”

⁷³⁵ Deleted: “might most of us are inclined to think”.

able rivals in the attempt to do a difficult thing well, then the hope of earning such an income would offer to all but the most sordid natured inducements almost as strong as they are now when there is an equal hope of earning a large one.

On all this class of questions modern economists are inclined to go a little way with the socialists. But socialist schemes⁷³⁶ seem *generally* to think too much of competition as the exploiting of labour by capital, of the poor by the wealthy; and too little of it as the constant experiment by the ablest men for their several tasks, each trying to discover a new way in which to attain some important end. They still retain the language of the older economists, in which the employer, or undertaker, and the capitalist are spoken of as though they were, for all practical purposes, the same people. The organ of the German school of English socialists prints frequently in thick type the question, "Is there one single useful or necessary duty performed by the capitalist to-day which the people organised could not perform for themselves?". It would be just as reasonable to ask if there is a single victory to which Julius Caesar or Napoleon conducted their troops which the troops, properly organized, could not have equally well won for themselves; or whether there is a single thing written by Shakespeare which could not have been equally well written by "any one else" if, as Charles Lamb said, he happened to "have the mind to do it". It is true that business men *occasionally* earn large incomes by routine work. It is just in these cases that co-operation can dispense with middlemen and even *with* employers.⁷³⁷⁷³⁸

Public opinion acts partly through the Government. But though the enforcement of the law in economic matters occupies the time of a rapidly increasing number of people, and its administration is improving in every way, it fails to keep pace with the demands resulting from the growing complexity of economic organisation and the growing sense of responsibility of public opinion. A part of this failure is due to a cause which might easily be remedied; it is that the adjustment of punishment to offences is governed by traditions descending from a time when the economic structure of England was entirely different. This *has been* most conspicuous with regard to the subtler, or, as they are sometimes called

⁷³⁶ Text deleted at this point: "and especially those which are directly or indirectly of German origin seem to be vitiated by want of attention to the analysis which the economists of the modern age have made of the functions of the undertaker of business enterprise".

⁷³⁷ Text deleted at this point: "But the German socialists have been bitter foes of cooperation though this antagonism is less than it was".

⁷³⁸ In the margin of this last long paragraph a large "8" is drawn in normal pencil.

with unconscious irony, the more gentlemanly forms of commercial fraud on a large scale. The punishment awarded by *Law Courts inevitably light* in comparison with the aggregate gains, which *have been made by* wrongdoing; and it is still more trivial in comparison with the aggregate injury which such wrongdoing inflicts on the public. *This evil has been lessened in recent years: but, in such matters, wrongdoing is more alert, and more various in its methods, than the punitive action of Law Courts can be.*

Combinations of labour on the one side and of employers on the other, are now able to arrange plans of campaign for whole trades, for whole counties, for the whole country, and sometimes even beyond; and partly on account of the magnitude of the interests concerned, partly because trade disputes are being reduced to system, affairs which would be only of local interest are discussed over the whole kingdom.

Many turbulent little quarrels which centered more often about questions of individual temper, than of broad policy, are now displaced by a few great strikes; as to which public opinion is on the alert; so that a display of temper is a tactical blunder. Each side strives to put itself right with the public; and requires of its leaders above all things that they should persuade the average man that their demands are reasonable, and that the quarrel is caused by the refusal of the other side to accept a reasonable compromise.

This change is increasing the wisdom and the strength of each side; but the employers have always had fairly good means of communication with one another; it is the employed that have gained most from cheap means of communication by press, by railway, and by telegraph, and from improvements in their education and their incomes, which enable them to make more use of these new and cheaper facilities. And while the employers have always known how to present their case to the public well, and have always had a sympathetic public, the working classes are only now beginning to read newspapers enough to supply an effective national working class opinion; and they are only now learning how to present their case well, and to hope much from, or care much for, the opinion of those who are neither employers nor of the working classes.⁷³⁹

A larger place than formerly are now taken by the power of combination and by the power of public opinion in judging, and criticizing, and aiding

⁷³⁹ Text deleted at this point: "I myself believe that in all this the good largely predominates over the evil. But that is not the question with which I am specially concerned at present. My point is that, in the scientific problem of estimating the forces by which wages are adjusted a larger place has to be allowed now than formerly".

that combination. *All* these changes tend to strengthen the side of the employés, and to help them to get a substantial increase of real wages. *This* they may so use as to increase their efficiency; and therefore to increase still further the wages which they are capable of earning, whether acting in combination or not.

No doubt the term "public opinion" is somewhat ambiguous. It may be taken to signify, the opinion of the average man; that is, of an average member of one of those classes of society that is not directly and immediately concerned in the question at issue. But he is very busy, and has many things to think about. He makes great mistakes; but he learns by all of them. He has often astonished the learned by the amount of ignorance and false reasoning which he can crowd into the discussion of a difficult question; and still more by the way in which he is found at last to have been very much in the right on the main issue. He is getting increased power of forming a good and helpful opinion, and he is being educated in mind and in spirit by forming it, and by giving it effect. But in the task which he is undertaking there are great difficulties ahead.

It is true that outside competition tends to visit with penalties either side, which makes excessive use of any tactical advantage it may have obtained: *and* shrewd organizers of a Trust are averse to raising the price of its wares much above the normal, or steady, competition price. *Thus* the first point, which courts of Conciliation and Arbitration have to consider is, what are the rates of wages on the one hand and of profits on the other, which are required to call forth normal supplies of labour and capital respectively *for the industry in view*. *Only* when that has been done, can an inquiry be properly made as to the shares in which the two should divide between them the piece of good or ill fortune which has come to the trade. *In fact* the growth of combinations and partial monopolies has increased the practical importance of *a* careful study of the influences which the normal forces of competition exert on normal value.

But it must be admitted that the direct force of outside competition in some classes of wages disputes is diminishing; its indirect force is *indeed* increased by the increased power which modern knowledge gives us of substituting one means of attaining out ends for another: *but* on the whole the difficulty of deciding what is a reasonable demand is *perhaps* becoming greater. The principles on which a court of Conciliation or Arbitration should proceed in forming their judgements, are becoming, in spite of the great increase of knowledge, more and *obscure* in several respects⁷⁴⁰.^{ccxlviii}

⁷⁴⁰ In the margin to this final phrase "ø" is drawn in normal pencil.

*[undated]*⁷⁴¹

Possibilities

A. Constitution of Public Well-Being Committee⁷⁴²

A committee of (a) medical men (b) medical women (c) business men (d) business women to sit permanently (members to be appointed for (say) six years one sixth to retire each year; and not to be re-eligible till the lapse of a year: though during that year a member may be co-opted by a two thirds majority as an auxiliary member without a vote. The men to be more numerous than the women.)

Members to be salaried: but everyone, who prefers not to receive a salary, to be encouraged to direct his or her salaries to be paid to any Institution which he or she selects.^{ccxlix}

*[dated 23.2.23]*⁷⁴³

[...] social life to increase the supply of parents who have the qualities most in [...] ⁷⁴⁴

therefore⁷⁴⁵ we may hope for a relative increase in the children of those parents who have themselves deserved best of their country: therefore⁷⁴⁶ greatest rapidity of increase in qualities that make products that are of the very best real value

[...] social life to increase the contributions to the numbers of the people, made by those persons whose qualities are most in demand.

The question is not free from obscurity. The pressure of the Napoleonic wars tended to cause – to the great distress of Malthus – the self-respecting classes of the population to stint the size of their families: while people of weak character often brought into the world large numbers of children, who were kept alive by the forced bounty of Poor Law Guardians: and the

⁷⁴¹ Text mainly cut out from a previous publication (i.e. “Some Aspects of Competition”) and pasted on white folios numbered pages 26-31 and 1-12. The printed text is given in plain type here, the several additions and corrections in italics.

⁷⁴² Written “Comm^e”.

⁷⁴³ Text written in black pen on a white folio.

⁷⁴⁴ Text missing.

⁷⁴⁵ Written as a symbol.

⁷⁴⁶ Written as a symbol.

sufferings of some parts of Europe, that resulted from the recent great war, are said to have tended to foster some similar recklessness. But in the main it is true that the children of self-respecting parents, who survive the troubles of infancy are more numerous than those of reckless habits and inclinations in early childhood; & do not appear in nearly the same degrees in all the offspring of the same parents; even when the domestic and external influences acting during childhood have been apparently the same. But it seems probable that the progress of the human race has largely depended in the past, and may depend even more largely in the future, on the tendency of settled conditions of [...] ^{cc1}
 [undated]⁷⁴⁷

2.3. *Progress and Equality*

Equality is desirable.

A in regard to income

But, if it is assured, activity in work can be obtained only by compulsion: activity in thought will be found only in those people who delight in high exercise of faculties: and such exercise will not turn in large measure to those labours which promote material welfare.

Of course equality of material comforts and luxuries might be combined with inequality of honour: that has succeeded in many small communistic societies, so long as the noble leaders have remained at the helm: but not after

Equality is desirable.

B in regard to opportunities

That is in considerable measure secured in England now, so far as earnings go: for Board School education, with scholarships to advanced pupils leading to better schools puts most well conducted families on a fairly good level. Common clerks work is coming down to its proper place.

Equality is desirable in proportion to the value of services rendered: the value is to be governed, not as now, by relative scarcity of trained faculty, but by the relative scarcity of exceptional intellectual activity. Here is the

⁷⁴⁷ Text written in black pen on a white folio. In the archive the pages are bound to a blue folio on which is written in red pen: "Possibilities of a benevolent autocrat"; then, added in black: "This seems to have been meant for the final Chapter but I am not sure 5.1.21".

crux. Promotion adjusted to ability is a very difficult task: it is not very often attempted in Governmental offices. Occasionally semi-communistic associations of work-people attempt it: but cooperative experience shows that it is not an easy task.

Therefore the end desired is not accessible directly[.]

Indirectly it may be approached by means of

a) education, which includes a description and realization of the kind of faculty which is of most service to the State; and an apportionment of honours in school, so far as may be (for the task is difficult), to constructive faculty. For this purpose essay writing is of value: but most other forms of literary are of little service: and a master who has little constructive faculty will not foster it in his pupils. "Problems" are of some use: book work is a burden to the mind: some of it is necessary, but it should be compressed[.]^{ccli}

[dated 1.1.22]⁷⁴⁸

The argument for unequal wealth is that

- 1) rights of property (mitigated) are essential for the great creative force of business ability (which however should not be in so few hands)
- 2) with those rights (a) you cannot have absolute equality because⁷⁴⁹ that could not exist in an absolutely ideal State and (b) so long as the services for which all high and low are willing to pay very unequal rewards, cannot be rewarded equally without arbitrary diversion of the "natural" stream of distribution and would be to that extent "unfair"[.]
- 3) Though it is true that rough labour might be made valuable by being made scarce, as water might; yet that would leave so many, who are capable of nothing higher, without employment as to cause either grievous destitution or vast public charity:
- 4) Though this might be obviated partly by reducing the hours of labour, especially for the low grade people, the result would be so great a diminution of the national income that the artisans would certainly suffer. And

⁷⁴⁸ Text written in black pen on white folios numbered pages 1-4. At the top of the first page is written: "In connection with Hook's Social and industrial problem". The book, published in 1921, is recorded in Mary Paley's catalogue.

⁷⁴⁹ Written as a symbol.

5. This rude labour can be and would be so much displaced by higher class labour + machinery that there would set in a continually increasing drying up of the field for their employment; and on the whole they would gain much less than they expect, while yet evoking a reasonable hostility from other classes.

Tom Mann's statement⁷⁵⁰ that wages generally could be raised by such a plan is untrue.^{coliii}
[dated 17.3.12]⁷⁵¹

3. Social Order

3.1. *Ideal Social Order*

The several functions of individual, associated and collective enterprise in industry and trade⁷⁵²

The free play of private interests under the present social order is often described as the action of free "competition"; but for many purposes it seems better to speak of free or un-trammelled "action". For the greater part of it would be needed in an ideal social order in which every man was absolutely virtuous; and was always ready to undergo any exertion or other sacrifice, which appeared likely to confer on any other person, or on the community as a whole, a benefit (or aggregate benefits) greater than that which he would reap by evading the sacrifice. And yet in such a society there would be no "competition" in the ordinary sense; for all would co-operate for the public good. There would be no private rights; there would exist only public duties, performed only for their own sake.

⁷⁵⁰ In the Bound Volumes (Caldari 2000) the following work by T. Mann is present: T. Mann, "The Labour Commission and its Duties", 1891, *New Review*, pp. 293-303, collected in the volume "Pamphlets: Functions of Gov. 93". Tom Mann (1836-1941), labour leader, joined the Amalgamated Society of Engineering. He was a leader of the London dock strike in 1889 and became president of the Dockers' Union, 1890-96. He was a member of the Labour Commission of 1891-94, with Marshall as fellow member of the group B which dealt with transport and agriculture; and also a witness who was questioned long by Marshall. See the interesting biography *Tom Mann, 1856-1941. The Challenges of Labour*, by Chushichi Tsuzuki, Oxford: Clarendon Press, 1991.

⁷⁵¹ Text written in black pen on blue folios numbered pages 1-3.

⁷⁵² Text written as title on a blue folio. Added in the margin in black pen: "This is really on the distribution of effort among industries in an ideal State" and then "Of doubtful value"; in red pen was then written: "may be useful later".

As a matter of course and without any consciousness of merit. Moral perfection would be there but material progress would have been lacking and nature would still be refusing [more] than a scanty support to even a sparse population unless there had been a continuous “substitution” of more efficient means for less efficient means relatively to their costs.⁷⁵³

No doubt the efficiency of any work of man, or animal, or machine would in this ideal social order be measured by the real benefit arising from it, not by the additional money value of its product: there would be nothing corresponding to the fact that the monetary measure of the efficiency of work destined to gratify a very rich person may be a hundred times as great as that of work which is destined to confer an equal gratification on a poor man⁷⁵⁴. In the same way the cost of a painful exertion would be reckoned as proportionate to its intensity; at all events the supposition that everyone’s work was of equal real importance to society.

It would however obviously be wasteful to tire out a man of high intellectual quality – whether artistic, literary, scientific or practical – to do work that was within the range of ordinary people; the real cost of such work to society, if not to the man himself, would be very high to the benefit arising from it. And in the same way the real benefit that would accrue to the society, if not to the man himself, from supplying him with larger opportunities for rest, recreation, quiet & c. than would be afforded to all. The apportioning of such facilities, as well as of work for which they were requisite needed, would need to be arranged by the incessant watchful care, according to the best judgment of the leaders of the society. It could never claim numerical accuracy. The principles by which it was directed would be ideal: that is to say they would be absolutely real. But their embodiment in conduct would be difficult and even impossible.

In the world as it is such apportionment is affected, in the main crudely by the almost automatic balancing of demand and supply in terms of money values. Such measures are not in strict accordance with any philosophical principle: they are controlled by the varying faculties, aptitudes, tastes and requirements of mankind; by the resources furnished by nature and accumulated by man; by the existing state of the arts of production; and lastly by the line of division which the existing social order has set up between public and private rights. This division has emerged after many centuries of experiment, with the general approval of all nations that have achieved great things.

⁷⁵³ Written above these last sentences: “Too strongly worded”.

⁷⁵⁴ Text deleted at this point: “But though this difference is important from the ethico-social point of view, we shall find that it has little bearing on the limited claim of the present social order”.

But it is an artificial compromise: it lacks philosophic reality. Its main strength lies in the arithmetical definiteness and precision which it imparts to the forces of industrial organization. The balancing of a certain interruption to the work of an architect against some social benefit in an ideal State, would involve an exercise of judgment in which perhaps no two authorities would agree exactly. But in the real world it is effected by an automatic process of arithmetic: those wants which have the higher money measures are satisfied before those which have the lower relatively to their money costs: or, which is the same thing written backwards, those exertions of which money costs are low relatively their power of meeting wants which have given money measures are taken in preference to those of which the money costs are higher. Let us look a little further into this.^{755756 ccliii}

[undated]⁷⁵⁷

3.2. *State and Social Order*

Where each family is nearly self-sufficing, Social Order may be maintained by mere goodwill, without any organization; each family holding its goods and its assistances at the service of its neighbours either gratuitously or in return for some more or less definitely understood compensation. But, it is quite otherwise in a Society which turns to account those resources of specialized knowledge, aptitude, skill, ability and material plant which have enabled mankind at once to concentrate energies in branches of production which are capable of yielding Increasing Returns, and to evade the greater part of the resistance which Nature offers in Diminishing Returns. In such a Society there must be a carefully planned adaptation of special means to special ends, which involves an incessant substitution of more appropriate agents; human or material, in the place of less appropriate, for the production of each desired result: [let us see how this would]⁷⁵⁸ work out under social institutions,

⁷⁵⁵ Written above the last part of the text in normal pencil “Rewrite or δ”.

⁷⁵⁶ Text deleted at this point: “The actual social order though lacking the reality (though full of deficiencies from a philosophic point of view) has strong claims to be practical. But even on the practical side it [...]”.

⁷⁵⁷ Text written in black pen on white folios. The text is very much amended. Added at the end of the last page in blue pencil: “Leave a line vacant”. The text was transcribed – with some differences – by M. Dardi, 2010, in *Marshall Studies Bulletin*.

⁷⁵⁸ Text deleted but connected with the following part.

which do not recognize the existing rights of private property.

We postulate of course a perfection of human nature so absolute that every one cares for the wellbeing of his neighbour as much as for his own; and therefore there exists no justice or injustice, no law and no compulsion. The authority of those to whom the organization of the State had been intrusted would be obeyed by virtuous men, because everyone would know that every task which he was called on to perform would result in a public benefit greater than the fatigue or other harm which it might cost to himself[.]

For convenience the society whose affairs we are to consider under different Social Orders may be assumed to be a nation: We may suppose the authority which is required even in an ideal Order, to be already in possession of public confidence, and to be possessed of business capacities, technical knowledge, and statesmanly powers of prevision such as belong to the ablest men of the present time: we need not inquire too curiously whether men with such faculties would be likely to emerge from the soft conditions of such a country: as their authority would not extend to other countries, international trade and international investments must be left for the present out of account. It matters not whether the persons who exercise the authority are a benevolent autocrat and his deputies, or a national Council with administrators appointed by it: in any case they represent "the State"[.]

The whole national income will of course be at the disposal of the authorities; and it will be well to define this term closely. If we suppose a national stock-taking at the end of each year, the accounts must first show that the stocks of all these things on hand at the beginning of the year are represented by equivalent stocks at the end: every additional desirable thing, whether a material product or not, which has been produced during the year, is a part of the true national income of that year. The greater part of it, and especially nearly all the food, will have been consumed during the year. But in a modern industrial country, not stricken by war or other great calamity, a considerable part – probably between a fifth and a twentieth – of the whole production will have been added to the national stock; and a corresponding excess will be shown by the stock-taking at the end of the year over that at the beginning

Since the whole people are supposed to [be] ready to give his whole strength to any work which the State calls on him to perform in the public interest, there will be no occasion to devote any part of the national income to stimulating or rewarding work. It will therefore be divided out almost evenly: because as a man's command over the material sources of wellbeing increases, he satisfies his wants one after another in order of

their urgency: and to express things in terms of money an addition of £10 to the income of a person who has already £500 brings less solid gain than it would if he had only £100⁷⁵⁹.

The State will therefore distribute the national income evenly. for the greater part evenly; but two sets of inequalities will be inevitable.

On the one hand the State would follow the example of the head of a household who allots better accommodation and choicer food to an ailing daughter unable to contribute to the family income than to strong son, who contributes much: that is, they would break the rule of equality by adjusting income to needs irrespective of services.

And, on the other hand, it will allot similar privileges to those who were set to work that involved high nervous strains, such as experience shows cannot generally be sustained on any diet that is not light of digestion and therefore somewhat costly; nor without a fuller rest from noise and other disturbing influences than is required for the maintenance of health and strength during ordinary manual labour. Some of the older socialists did indeed suggest that manual and mental labour might be shared out in nearly even proportions of the whole people, under the belief that such change of occupation would be beneficial. But they had in mind only such work, whether physical or mental, as involved no severe strain: and experience shows that such a combination is wasteful in regard to heavy work. Even working men's associations for cooperative production, when on a considerable scale, find it expedient to allot to each chief official only a single group of duties, all of which strain the brain and the nerves rather than the muscles. And yet such associations succeed only in branches of production, which are already so far stereotyped that, as to require a high order of initiative in their management. Like most Governmental businesses, they provide themselves as far as possible with plant which embodies the most recent advances of independent originating minds; their organization in great things and small follows in the main on tracks that have been approved as the result of vast numbers of experimental variations, and are already beaten very smooth. Their officials require solid steadfast character, sound judgment, knowledge of character, and a

⁷⁵⁹ [Marshall's footnote:] "It has indeed long been agreed, on the initiative of Laplace, that the addition of ten per cent to the income of a rich man is of no more solid benefit to him than the addition of ten per-cent to the income of a poor man; and there are some good reasons for thinking that it brings less. On Laplace's lines an addition of £10,000 to the income of a man who has already £100,000 would create only one two thousandth part of the real social gain that would result from the addition of £5 to the incomes of two thousand people each of whose incomes is only £50".

considerable faculty for adapting the organization of their business to changes in current conditions; but are seldom called upon to create. ^{ccliv}
[undated and dated]⁷⁶⁰

3.3. Experiments of Social Order

It may be that a Social Order, very different from the present, will spread gradually over the western world: but there is perhaps less reason than appears at first sight to think the study of the causes which govern the material conditions of the various sections of society will proceed on wholly different lines from those pursued by economists generally under the present Social Order

Under schemes for an improved “Social Order” are included ordered Communism allowing of no private property and all forms of ordered Socialism which allow limited rights of private property under “Social Control”: but no place among them can be found for any form of Anarchism. It is true that Anarchism is sometimes advocated as the shortest route to a perfect “natural” social order, which is expected to arise spontaneously, as soon as the ground has been cleared of the social structures by which it is at present encumbered. But advocates of ordered socialism are as eager, as any upholder of the extreme rights of private property can be, in maintaining that Anarchists have never faced the difficulties of combining the advantages to be gained from the use of modern industrial appliances and methods with social conditions that allowed no room for orderly coordination of effort under the guidance of broad and deep knowledge of forethought^{761 cclv}.

⁷⁶⁰ Text written in black pen on white folios, not numbered. The pages are bound to a blue folio on which is written in red pen: “F.B. §4 Absolute Utopia 25.2.12” and added in red (different pen) “probably useless 8.3.19”. This text had already been published by M. Dardi, 2010, in *Marshall Studies Bulletin*, but we have decided to include it here insofar as it is an important element to understand Marshall’s concept of social order.

⁷⁶¹ [Marshall’s footnote:] “See for instance Impossibilities of Anarchism by Bernard Shaw, “Fabian Tract” No 45. See also Sombart’s criticism (Socialism and the Social movement I, v) of the suggestions of the Revolutionary Syndicalists that the several branches of industry might be committed to the care of appropriate trade unions. Independently of the obvious difficulty, that such unions if uncontrolled would, however unselfish, be apt to overlook important elements of public interest; there is as he insists the further difficulty that though the trade union leader is, as a rule, trained by his office to a high order of intelligent self-

One of my purposes of my visit to America in 1875 was to see something of the Communistic societies which were then attracting much attention. I found that those which had attained coherent strength owed comparatively little to economic considerations, or to the material advantages of material organization. They were groups of enthusiasts for new developments of religious faith, new methods of social life; though some of these ideals appeared to the onlooker to be retrogressive: but they were held with earnest conviction. The leaders, who were their chief exponents, had a sort of sacerdotal authority, which was congenial to the faithful but burdensome to those who had been attracted by the expectation of a somewhat easy life in moderate comfort. So those of doubtful mind departed and fervent believers were kept to disciplined work by bonds stronger than those of a mere cash nexus^{762cc1vi}
*[undated]*⁷⁶³

3.4. Order and Freedom

Order and freedom⁷⁶⁴

control, which is of great service in political life and is a very valuable national asset; it does not enable him to grapple with the technical and administrative difficulties of a great modern business. And I have myself been told by several of the finest minds among the trade union leaders of an earlier generation, that by the very act of devoting themselves to their official work, they cut themselves off from any chance that they might otherwise have had, of taking place with the many workmen who become wealthy employers.”

⁷⁶² [Marshall’s footnote:] “It is well known that through money semi-communistic associations allowed each person to draw the whole or a part of the value of his work, estimated by the hour, in ordinary or artificial money or in kind; get an hour’s labour was taken to mean an hours labour of normal efficiency. If a man only did half an hour’s good work in an hour, he was credited only with half an hour: the system was in fact not one of time wages, but one of piece work wages set at such rates that people working with equal energy got about equal remunerations, whatever the character of their work. See e.g. Anton Menger, *Right to the produce of labour* §13”. Above the text of this footnote “Verify” is written in normal pencil. See also Part I Section II, fn.303.

⁷⁶³ Text written in black pen on white folios. The folios transcribed here belong partly to folder 5.7 and partly to folder 5.36 according to the Marshall Library Archive classification. Nonetheless, from the paper and the two different inks used it may be deduced that the parts were connected together, which is why we have decided to combine them as a single text. But see also Dardi 2010.

⁷⁶⁴ “Book IV₅” is added, and then later, with another pen: “V Conclusion

Perhaps to contain some discussion of freedom (as contrasted with and opposed to absence of *self*-content and *self*-sacrifice); its claims to *be the* ideal. But that involves work for others and therefore (1) family unity, (2) industrial groups unity, (3) local unity, (4) national unity, (5) imperial unity, (6) race unity and (7) world-unity: each being coordinated with the others; and in general in ascending scale; except that 2 & 3 are cross divisions on the same plane; and so are 5 and 6.

Each should be subordinate to the order above it, but the strength of each order depends in a great measure on coherence and vitality in that below⁷⁶⁵.

In all this there is nothing about wealth or order: for the function of wealth and of order is to give full play to the free exercise of faculties, in which alone is the highest happiness. But real wellbeing does no doubt demand some considerable measure of material comfort, especially in urban and even semi urban life; which are necessary for true wellbeing. And therefore no inequalities of wealth are to be respected which are not necessary for true freedom. And of course⁷⁶⁶ order, in so far as it consists of external shackles is to be respected only because and in so far as it is a means to that end.

“Luxury pioneers the way for comfort; & therefore inequalities of wealth are necessary for the progress of the multitude”. True to some extent. And to the same extent it is true that the white race must have more of the abundances of the good things of this world than others: as pioneers. But we must make room for them up on top especially for India.

But we also must try to be on top: there is no one who is less free than a great ruler to do what he likes with his own time and energy.

And Britain is the head of 11,000,000 square miles, and the ruler of 100,000 of them⁷⁶⁷

P.S. Liberty has been taken to be almost synonymous with vitality. Vitality is in some sense opposed to mechanical relations to persons and things. But technically much of it is essential to economical production: and much of it is also essential to order. In both ways it is good because it is a means to good: but it is to be kept within as narrow limits as may be^{cclvii}.

[dated 31.5.10]⁷⁶⁸

Unshackled activity is this ideal: but Freedom needs Order”.

⁷⁶⁵ There is a large B above the previous paragraph.

⁷⁶⁶ There is a large A above the previous paragraph.

⁷⁶⁷ This last paragraph (from “And to the same extent”) deleted with a line in normal pencil.

⁷⁶⁸ Text written in black pen on blue folios, numbered 1-3.

4. The Future

4.1. *The future of Science*

The future of Science

It will make increased calls for divination. Even now the faculty of reasoning plays but a secondary rôle in science: it rather resembles the part played by physical strength in boxing. Intuition is needed to direct observation and reasoning: intuition cannot be taught by a pedagogue, or built up by steadfast industry. In so far as it can be created at all, the originating force must come from a strong alert resolution to get to the bottom – as far as may be – of each particular set of relations, as it is brought into view by thought or by experience[.]^{cclviii}
 [dated 14.10.20]⁷⁶⁹

4.2. *The economic future*

Probable future of Staple temperate agricultural products

A variation from Hookers results Stat J 1909 p 551⁷⁷⁰

Probable future: A. Lands suitable for pasture aided by lucerne (alfalfa) and other crops being much more extensive than wheat land, and increased supply of meat can be got more easily than of wheat. But:

B. The superior demand for cereals will force them more and more into countries and districts for which they are not specially suited; partly by selection for dry regions, and partly by the prevalence of varieties of all grains which will stand damp, partly by substitution of damp soil grains and especially oats for wheat, partly perhaps by increased use of tropical products such as bananas;

C. Among meat products[:]

Pig meats will probably hold a first place, partly by aid of refuse food of industrial districts.

Next will come veal, by aid of milk[.]

Next beef, partly by that aid and partly because the growth of meat diet is largest in the aggregate among populations who prefer beef to mutton

⁷⁶⁹ Text written in black pen on a white folio.

⁷⁷⁰ “The Meat Supply of the United Kingdom”, By R.H. Hooker, M.A., *Journal of the Royal Statistical Society*, Vol.LXXII, 1909, pp.304-86. .

much and to pig meat a little. Leather seems in danger of being superseded by textile products.

Lastly mutton, sustained partly by wool for which no good substitute seems to be in sight, will hold its own in limited districts: and probably even, by aid of British methods, elsewhere. Sheep in Patagonia are still grown almost exclusively for wool and to a large extent in Australia.

E. Dairy products will grow fastest of all[.]

F. Fish will take an increasing part; an international police will need to be formed for the destruction of all big fish not suitable for human food.

G. Leguminous vegetables will be increasingly consumed. ^{cclix}
*[dated 24.1.11]*⁷⁷¹

The future

Electricity generated by power derived from the sun's heat or from winds & tides & falling water to undertake nearly all hard physical work in agriculture, as well as in mines, manufacture, and transport: and perhaps heating.

Coal consumption to be kept down to the minimum by legislative and administrative action: this will be facilitated if electricity is used as intermediary between heat and movement; for each ton of coal (of a given quality) may be required to yield an adequate supply of electricity. A plant, that is not being worked under conditions of exceptional difficulty, is to be suppressed if its output of electricity for each ton of coal (reduced to equivalent in terms of a standard coal –e.g. Welsh –) falls short of a fair result.

This implies that (while Nature will be left to supply energy in the form of heat for agriculture) other mechanical energy will be regarded as a national asset, whose main function is to render needless (save in exceptional cases) such forms of muscular exertion as are incompatible with the work and life of a full citizen. This amount of muscular exertion need not be very low: rowing & hard study go together at Universities.

Expenditure, which serves no considerable service other than a display of wealth, is to be discouraged, by public opinion, by special taxation, and, in rare cases, by edict. ^{cclix}

*[dated 14.11.20]*⁷⁷²

⁷⁷¹ Text written in black pen on blue folios, numbered pages 1-2 (one page is not numbered).

⁷⁷² Text written in black pen on white folios, numbered pages 1-2.

The future (cont^d)

Mechanical, Chemical & other progress is increasingly based on scientific knowledge: rules of thumb –i.e. empirical rules, the foundation of which in laws of nature is not understood – fall increasingly into the back-ground. Therefore progress increasingly becomes accessible to intelligent people, even though devoid of original constructive genius. In so far as this is true, the necessity for sustaining such institutions as lead to great inequalities of individual wealth diminishes: that is – progressive income taxes – provided they cannot be evaded – are technically more workable than they were.

But no doubt evasions are facilitated by the growing internationality of business. A man who reaps £10,000 a year from each of four businesses in four countries is likely to get off with less taxes than if he reaped £20,000 from business in a single country.

This point tells a little to strengthen much larger considerations that make for moderation in graduated taxation: but yet such taxation must be the chief corner stone of liberty to great businesses to push their way through and over the ruins of small businesses. Great businesses may do more than their share of pioneering work on the frontiers between science and the techniques of production: and, in spite of patent rights, their best results soon become common property even as things are. But a change which – under due provisions for equity – tends to accelerate this diffusion is *primâ facie* to be welcomed.

It is more important to put facilities for further technical progress within range of the multitude of smaller men, than to increase the value of the prizes which come to successful innovators.⁷⁷³

Ultimately perhaps Patent rights and other rewards of invention will be controlled by international authority. Each nation will have the right of imposing any duties it likes on patent rights of its own people for production and sale within its own borders: but international patent rights will [be] controlled by international authority.

There is however danger that such regulation may require much thought for men whose time is of high value to the world:- and therefore simplicity and ease of working may be more important than technical perfection of detail[.]^{cclxi}

[dated 16.12.20]⁷⁷⁴

⁷⁷³ A vertical line in normal pencil was traced over this phrase.

⁷⁷⁴ Text written in black pen on white folios numbered pages 1-3.

The possible democratic control of industry in The Future

Progress requires risks[.]

An official, who presses the taking of risks at the public expense, must be (1) a man of rare courage and just self-confidence; or (2) a reckless man who loves sensation and éclat, especially when they are to be had without much risk to himself; or (3) one, who sees difficulties in his way (some of which are perhaps not generally known;[)] one, who would as willingly collapse suddenly as fail slowly & under long drawn out compassion.

Therefore private enterprise, unshackled and well proven in relatively small ventures, can pioneer more boldly and therefore better than an official.

This fundamental tenet of the advocates of individual enterprise is of less cogency now than it was two centuries or even one century ago. The State has as good right to exploit the inventions and other ideas of past times as a private person or company has. The control of the State is passing out of the hands of the well-born and the wealthy; and therefore its business is in but little danger of being exploited in the interests of a small part of the population.

These reasons tell in favour of a continued increase in the constructive business functions of the State. But per contra:-

That part of manufacturing technique, which is within the range an artisan of ability – not exceptional genius – who has made his way to the front by facility of speech in addition to the (somewhat indirect) evidence of his constructive faculty – does not always include the most important factors of progress. No doubt the artisans, who work a particular class of machines, are excellent judges of an improvement in them. No doubt also technical journals come increasingly within the purview of the abler sorts of artisans. But the present control of industry is largely in the hands of men who have risen from the ranks, or are the sons of those who have had important responsibilities as foremen, and other non-commissioned offices of industry.

It is therefore not certain that a rapid movement in the further democratization of industry would be to the advantage of the population at large. It is right to look eagerly far ahead: but it is not wise to move hastily on to perilous ground. Eagerness in testing progress is a duty: but the larger the venture, the more cogent is the rule Festina lente[.]^{eclxii}
[dated 21.10.21]⁷⁷⁵

⁷⁷⁵ Text written in black pen on blue folios, numbered pages 1-4.

4.3. The future of mankind

The future of mankind

An aged, experienced & wise member of a savage tribe, none of whom had come into contact with a civilization higher than their own, might look back on the huts, the weapons, and the tribal organization of his youth: then he might estimate the character and extent of the progress made during his life time, with some references to traditions of the past, which he had heard when young from the elders of his tribe. Then he might forecast progress in future generations. Bows could carry further: flesh eating animals would be cleared out: useful sorts of animals would be multiplied and improved: huts & clothing would be more abundant and better fitted for various designs.

But if an aeroplane descended in a neighbourhood under stress of weather: its occupants discovered petroleum which would enable them to return home: and he, travelling with them landed in a centre of advanced "western" industry and fruition, he would learn that ideals cannot be created, save by writers of fairy tales. The ideals of each age are based on the experience of the past: and they have never had any near affinity with the possibilities of subsequent ages, except in so far as they have rested on the belief that the nature of man himself changes but little.

The old fashioned economist may assume that the desire for material comfort and for the prestige to be derived from the possession of wealth will continue to increase their predominance over other motives. The socialists may assume that the extension of family affections to cover (i) a tribe, (ii) a nation, (iii) mankind in general, will reach so far that the desire by each for the approval of the little critic that vegetates in the top of his brain, and for the approval of others will greatly lessen the importance in general estimation of any comforts higher than those, which are now open to an artisan with say £3 a week, short hours, and work that calls for brains rather than muscles.

If such conditions should ever arise, the sentiments and the broad suggestions of socialism, as now known, will appear not only more beautiful, but also more helpful than almost any other literature now in existence. Next to it will perhaps come that part of economic analysis and economic records, which throws light on (A) the extent to which the efficiency of human efforts in the aggregate can be promoted by specialization of (i) skill (ii) plant (iii) local industries;

(B) To what extent it is socially advantageous that those, who show early signs of creative faculty, should be aided and drawn on to develop that faculty, with little regard to the expense of their education and nurture: (C) What methods of discipline, exercised by Central Authority would be

necessary and efficient for bringing any part or class of the population of the world up to a proper sense of its obligations to the present and future population of the world.

But the time for all this is not yet. ^{cclxiii}

*[dated 4.11.20]*⁷⁷⁶

[...] our hopes that anxieties as to mere necessities of life will gradually cease to ride a large part of mankind.

There are many obstacles in the way. It is still true (it is of course certain) that, if the population of the world continues to increase during many centuries as fast as it has done in the past, no conceivable advance in agricultural and other sciences can enable the land to supply abundant food, to say nothing of the comforts and luxuries of life, for the whole population: in the opening to all of the best education and opportunities for a complete life that the resources of the world can offer, would merely tend towards the growth of equality in meagre supply of the more solid necessities of life.

In fact some of the inequalities of wealth, that have prevailed in the past, may have been in a measure necessary to ward off so dread a danger, till mankind are ready to meet it with clear foresight and firm resolution. That distant peril is ever in the minds of those who devise cautious schemes of social advance: but it need not materially affect suggestions as to the best uses to which peoples of the world can turn their resources and abilities during the next few generations[.]^{cclxiv}

*[undated]*⁷⁷⁷

Such results were hardly possible till recently: and for this and other reasons it was less incumbent on the economic students of earlier generations than it is on us to reflect that however small may be the increase in the supply of creative genius which can be commanded by human effort, there is a vast field for social endeavour in extending the opportunities and the appropriate training accessible to people of good natural ability, in whatever industrial stratum they are born. Recent changes in the structure of industry have greatly increased the nation's need of men capable of the less brilliant but yet high grade tasks of skilled workmanship; of business administration and of bringing inventions

⁷⁷⁶ Text written in black pen on blue folios, numbered pages 2-6.

⁷⁷⁷ Text written in black pen on a large white folio.

through the many stages that lie between the original creative idea, and commercially practicable methods of applying them in industry. The demand for such trained abilities has increased, and so have our resources and opportunities for enlarging the supply of them. And though much has already been done in this direction very much more remains to be done.

Some good hope even for the near future, lies in the fact that the spread of a sound education among classes of the community who are still under the purifying discipline of hardship is raising on the whole the general level of moral responsibility; and there has also been a great increase in the capacity[.]^{cclxv}

[undated and dated]⁷⁷⁸

The future

Possibly: not probably:-

(1) Steam and other indirect conversions of sun heat into force, including wind and water power (and perhaps power derived from the degradation of chemical components) may enable nearly all heavy manual work to be relegated to machinery;

(2) Education may have become so thorough, real, and universal that (a) nearly every one may be capable of managing nearly any machine; and (b) the general adoption of shifts may enable plant to be kept working for 16 hours net out of the 24

Then (c) The normal level for ordinary wages may be that of work which is (α) not exceptionally disagreeable, (β) is not of the nature of pioneering in difficult matters. A rather higher rate may be appropriate to those who need to use tact in the management of men.

(d) Researchers may be a separate class, the national Staff of industry and trade: and they may be paid salaries corresponding to this rank which they hold in "the army of thought and work".

Marriage would be maintained. The expenses of rearing a family would be borne by the State in the form of an allowance for each child graduated according to its age, and with perhaps extra grant for any who showed signs of aptitude for difficult work, as part of the advisory or executive staff of industry.

⁷⁷⁸ Text mainly typed on a large white folio numbered GB36. Added at the top of the page in black pen: "For Book IV, The future. 6.9.21". The following text at the beginning of the page was then deleted: "... That implies that, though each machine performs a very small part of the task of making a boot, yet so quickly does it work, and so great is the number of machines in use, that together they perform in each year operations which would occupy the time of *vast numbers of workers.*"

Trade would be reduced very much to routine by standardization (kept carefully elastic) and by the maintenance of central control over its details, so that the far greater number of those occupied in it would receive normal wages. The Staff would receive high honour and some slight additional payment.⁷⁷⁹ ^{celxvi}
*[dated 22.11.20]*⁷⁸⁰

⁷⁷⁹ Text deleted at this point: "The results might be good if the mental and moral qualities needed for all socialistic enterprises were universal in mankind".

⁷⁸⁰ Text written in black pen on a white folio.

EPILOGUE

Marshall died at the age of 82. The course of his life was marked by many important successes: he introduced the Economics Tripos in Cambridge in 1903 after a long battle in Academia (Groenewegen 1995); he founded the Cambridge School of Economics, which played a dominant part in economic policy decisions in Britain (Hutchison 1981) and debate in Academic (Harcourt 1972); he became the reference economist for generations of scholars and his main work, *Principles of Economics*, was considered “the Bible”, as maintained by Joan Robinson (1951: vii). It was “emphatically the Marshallian age” as noted by Schumpeter when “Marshall [...] commanded the scene” and “made almost the whole of the rising generation of English economists his pupils and followers” (1954: 830; 833).

Nevertheless, Marshall failed in his main editorial project, which he endeavoured to complete all his life but was able to accomplish only partly and with a rather more limited outcome. His keen disappointment over his inability to achieve what he wanted but also his determination not to give up and to forge ahead towards that goal emerges clearly in his correspondence.

In the last few decades, some important manuscripts by Marshall have been published, allowing many scholars to grasp the depth and the complexity of Marshall’s thought that the published writings had often failed to render; they have also served for us to reconstruct and understand many of the apparent inconsistencies or oddities that provoked so much criticism of his approach; moreover they have offered us a comprehensive view of his ambitions as an economist. Whitaker’s *Marshall’s Early Economic Writings* (1975) and *Correspondence* (1996) and Raffaelli’s *Marshall’s Early Philosophical Writings* (1990, 1990, 2003) have greatly helped towards a fuller understanding of Marshall and have indeed affected interpretation of his thought and our grasp on his overall approach.

What had happened to Marshall’s publishing project and what it had evolved into remained, however, known to but a very few. There were, nevertheless, a considerable quantity of annotations, reflections and writings that he produced for his long-lasting project and that, however rough and disorganized, showed a great depth of analysis and relevance.

Moreover, they could contribute further to recomposing the complex puzzle which is Marshall's approach to economics. This constitutes more than sufficient reason for our study of Marshall's work on economic progress, which was to have been the final, unshakable stronghold of his project. The importance attached to the "high theme of economic progress" characterizes all Marshall's writings although it became more evident with the passing of time. The centrality of this theme in Marshall's reflections can readily be understood when we consider what Marshall believed to be his most important task as an economist.

Marshall's main aim was to help to make the world better, progressive, less poor in material wealth and richer in moral wellbeing. Throughout his life he sought to reconcile these two different needs (material growth and moral progress), which often come into contrast, as he himself realised and underlined. His concept of progress is no more or less than an attempt to bring these two aspects to coincide and to prevent one from prevailing over the other.

Recently, some economists have underlined the importance of economic degrowth and social and moral progress, focusing on economic sustainability and developing what is called "economics of happiness". All these new trends in research raise the same issues and seek answers to the same questions Marshall asked so long ago.

In his notes on economic progress collected in this book we have seen the multifaceted and complex questions that, according to Marshall, have to be addressed to approach the theme of progress in the right direction. We also noted the difficult choices and steps that he deemed requisite for any "movement forwards" and, moreover, what awareness of the main elements that can truly promote the progress of a society entails. In his reflections Marshall always deals with these issues and questions as a whole – a very complex whole, in which every part has to be considered vital for the others, following his idea that there is "the many in the one and the one in the many". But that very complexity of relations and aspects involved in progress also means that economic progress must advance slowly, in full respect of nature, the institutions and the moral and ethical dimension of human beings, following the idea that "natura non facit saltum".

The great potential of Marshall's perspective found some recognition in the past, but it has long been left largely in oblivion. In recent times, however, it seems to have come in for progressive rediscovery and reconsideration in the endeavour to deal with the many difficulties involved in the growth and progress of society, and on which Marshall still has an important message for us.

ENDNOTES

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