

# Alfred Marshall on Britain's Industrial Leadership

—With Special Reference to Industrial Organization—

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## 1. Introduction

When it comes to Britain's relative economic position in the world, perusing Marshall's writings would show how similar are the problems and the warnings which he handed out to those heard in Britain in the 1950s and 1960s, and perhaps in the 1980s and afterwards. Britain's economic position in the world and her slower rate of growth relative to other countries were one of his major concerns and important themes, particularly in *Industry and Trade* (1919). Marshall, like Jevons in his *Coal Question* (1865) and Ashley in *The Tariff Problem* (1903) and Joseph Chamberlain, was keenly aware of the unique historical conjuncture which had made Britain the workshop of the world in the nineteenth century, and of the dangers to her leadership and prosperity that the twentieth century might bring. Marshall was primarily concerned with one large general problem, namely an analysis of the conditions which would ensure the maintenance of Britain's economic growth and of her industrial vigour<sup>1)</sup>.

Fifty years ago nine-tenths of those changes, which have enabled the working classes to have healthy homes and food, originated in England...Now, ...Americans and Germans jeer at the way in which many of our business men give their energies to pleasure, and play with

their work; and they say, truly as I believe, 'unless you completely shake off the habits that have grown on you in the last thirty years, you will go to join Spain.' (Marshall to Brooke Foss Westcott, 20 January 1901)<sup>2)</sup>

Marshall also wrote to Edward Caird, Master of Balliol, at the end of 1897, concerning the strikes of the members of the Amalgamated Society of Engineering, which he probably thought of Britain's 'Achilles' heel'. 'Everywhere the tried men who had made trade-unionism the greatest of England's glories, have been pushed aside. ...Lately the Engineers have used their grand prestige, I hold, for England's ill. ...If the men shd.. win, & I were an engineering employer, I would sell my works for anything I could get & emigrate to America. If I were a working man, I would wish for no better or more hopeful conditions of life than those wh I *understand* to prevail at the Carnegie works now'<sup>3)</sup>.

## 2. 'Britain's industrial leadership under strong challenge'

Writing during the half-century from the early 1870s to the early 1920s, Marshall saw 'Britain's industrial leadership' changing from 'its long freedom from challenge' to being 'under strong challenge', namely to be confronted by the rise of German and the U.S. industries based on science and powerful corporate enterprise. The twentieth-century experiences

of successful industrial development revealed that the organizational coordination of large-scale firms increasingly replaced the market coordination in the development and utilization of resources<sup>4)</sup>. However, as will be seen, Marshall thought a great deal of 'strong individuality' and 'constructive cooperation' or cooperative network organization based on competition.

*Industry and Trade*, the long-delayed publication in 1919 when Marshall was seventy-seven, was originally planned as a second volume of the *Principles of Economics* (1890): then he set aside 'the Economic Function of Government' for a third volume, which never came out. *Industry and Trade* was *A Study of Industrial Technique and Business Organization; and of their Influences on the Conditions of Various Classes and Nations*. It was designed to be followed by a study of the influences on conditions of man's life and work, which were 'exerted by the resources available for employment; by money and credit; by international trade; and by social endeavour'<sup>5)</sup>. In all of his writings his overriding concern was for economic and human progress.

*Industry and Trade*, initially planned as *National Industry and Trade*, of which Marshall's close affinity with Friedrich List has been pointed out<sup>6)</sup>, is occupied with 'the evolution of the present forms and conditions of national leadership in industry', with special reference to the recent changes of giant businesses and combinations. The volume is much concerned with the comparative economic history of industrial technology and business organization in Britain, Germany and United States. In Book I he endeavoured to show how industrial leadership had changed through time and 'to

turn a few hints derived from the past to account in explaining the present', believing that 'economic evolution is gradual and continuous on each of its numberless routes', and making clear the British way of industrial progress through the volume. [IT: v-vi]

Marshall first pays attention to the urgency of the allied problems of industry and trade, that is 'of especially urgent concern to Britain'. The maintenance of her material well-being above that of other countries of Europe cannot be expected to last for ever. It needs to be known on what Britain's industrial leadership was based; and how it may be conserved, and even enlarged again. They must meet strong rivals, especially in Germany and America, on equal terms: and in order to continue to lead, 'they must learn as well as teach, and work as hard as the most strenuous of their rivals'. [IT: 3, 10]<sup>7)</sup>

Then in Chapter V he goes on to state how Britain's industrial leadership was 'under strong challenge'. A rare consilience of favourable influences promoted the expansion of Britain's industry and trade after she had thrown her markets open to the world. Rich old firms could thrive by their mere momentum, even if they had lost the springs of energy and initiative. Thus an extraordinary combination of favourable conditions, induced undue self-complacency — the arch enemy of strength. [IT: 91-92]

English business men were slow to recognize the vital importance of promoting industrial efficiency by improved education. He remarked that English education 'has lagged behind that of Germany in some respects by more than a generation'. [IT: 97] A British deputation to Germany in 1872 reported that 'all the Universities and Colleges in England put

together' contained less 'students taking up research and the high branches of chemistry' than a single German University (that of Munich)<sup>8)</sup> 'Educate, educate, educate, is the burthen of the lesson from Germany', declared *The Spectator* of June 26, 1886.

In Chapter VII "The industrial leadership of Germany: science in the service of industry", Marshall argues that 'Germany's zeal for solid education lays the foundation of her industrial progress'. Germany holds a leading place in scientific studies; and 'she is without a rival in the organized applications of science to practical problems'. The broad enlightenment, which most high officials and heads of large businesses have acquired at the Universities, enables Germany to apply science to industry which establish a claim to industrial leadership. [IT: 129, 130-31] Germany's leadership was mainly in industries, in which academic training and laboratory work were turned to good account; and they were growing in relative importance. Germany was quick to grasp the practical significance of any master discovery in other countries, and to turn it to account.

Therefore all the world had much to learn from the German methods of education. But Marshall thought that the lesson must be itself criticized and made the starting point for further progress. A chief strength of German education lay in its order and system. However, for Marshall discipline was a foe to spontaneity; and 'spontaneity is the chief creator of original work, and especially of that which makes epochs in thought'. [IT: 129]<sup>9)</sup>

### 3. Industrial Organization and Entrepreneur

#### 3.1 External and Internal Economies

Book IV of the *Principles of Economics* deals with "the agents of production", namely, 'land, labour, capital and organization.' According to Marshall, capital consists in a great part of knowledge and organization; and knowledge is 'our most powerful engine of production.' Organization aids knowledge and it has various forms, e.g. that of a single business, that of various businesses in the same trade, that of various trades relatively to one another, and that of the state providing security for all and help for many. Thus Marshall regards Organization as a distinct agent of production. [P: 138-39]<sup>10)</sup>

Chapters VIII-XII of Book IV of the *Principles* focus on 'industrial organization', and *Industry and Trade* is a study of 'industrial technique and business organization'. Such an industrial or business economics or Marshall's industrial or business analysis is based against the background of the 'Industrial Revolution of the present generation' and the rise of corporate economy. Marshall tackled the problems in order to comprehend the dynamics of capitalist enterprise like Marx and Schumpeter. For Marshall the central concepts for analyzing the relations between firms and markets and the industrial organizations are external and internal economies. In Chapter IX (of Book IV) dealing with 'division of labour and the influence of machinery', Marshall introduces the terms of external and internal economies.

The economies arising from an increase in the scale of production, are divided into two classes—firstly, 'those dependent on the general development of the industry'; and, secondly 'those dependent on the resources of the individual houses of business engaged in it, on their organization and the efficiency of their

management'. The former are called *external economies*, and the latter are *internal economies*. In Chapter IX major concerns are internal economies; he then proceeds to examine 'those very important external economies which can often be secured by the concentration of many small businesses of a similar character in particular localities,' or by the localization of industry. [P: 265-66]

Thus Chapter X is entitled "The concentration of specialized industries in particular localities." Marshall discusses the advantages of localized industries. 'So great are the advantages which people following the same skilled trade get from near neighbourhood to one another. The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously. Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed.' And subsidiary trades grow up in the neighbourhood, supplying it with implements and materials, organizing its traffic. The economic use of expensive machinery can be attained in a district where there is a large aggregate production of the same kind. [P: 271] Economies of large scale production develop from those which, although external to the firm, are internal to the industry, or from the division of labour within the industry.

Marshall further inquires 'how far the economies of production on a large scale must needs be *internal*, and how far they can be *external*'. [P: 277] In Chapter XI "Production on a large scale", he explains the advantages of a large factory as to the use and invention of machinery, while saying that in some trades like cotton spinning and calico

weaving factories of moderate size can have the best machinery. Then he comes to 'the central problem of the modern organization of industry', which relates to the advantages and disadvantages of the subdivision of the work of business management; saying that the small employer saves nearly all of the cumbrous system of checks that are necessary in the business of large firm. [P: 283-84]

Marshall tends to emphasize the importance of external economies of general organization. While the small business must remain at disadvantage in getting information and in making experiments, yet the general course of progress is on his side. For Marshall '*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 him much of the knowledge. They are also to his interest that the secrecy of business is diminishing, that changes in manufacture depend more on broad developments of scientific principle, and that many of these are made by students in the pursuit of knowledge for its own sake, and are promptly published in the general interest, becoming common property. [P: 283-85; italics added]<sup>11)</sup>

### 3.2 Entrepreneur

In Chapter XII "Business management", and Marshall's business economics in general, the role of individual entrepreneurs seems to be central. The task of directing production most effectively has to be given to 'a specialized body of employers, or business men'. They 'adventure' or 'undertake' its risks; they bring together the capital and the labour; they arrange or 'engineer' its general plan, and superintend its minor details. In the first



role 'as merchant and organizer of production' they must have thorough knowledge of their own trade. Secondly in the role of employer they must be 'natural leader of men'. They must have power of choosing assistants rightly, of interesting them so as to bring out whatever enterprise of origination in them. [P : 293,297]

Employers and other undertakers are divided into two classes, 'those who open out new and improved methods of business, and those who follow beaten tracks'. The services of the latter, or salaried managers, are direct and seldom miss their full reward: but it is otherwise with the former, namely individual entrepreneurs or 'captains of industry'. [P : 597] For Marshall, business ability is highly non-specialized; because in the large majority of trades, technical knowledge and skill become less important relatively to the broad and non-specialized faculties of judgment, promptness, resource, carefulness and steadfastness of purpose. '*Business ability consists more of these non-specialized faculties* than do industrial skill and ability in the lower grades: and the higher the grade of business ability the more various are its applications.' [P : 312-13, 606 ; italics added]

'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.' A chief function of business enterprise is 'to facilitate the free action of this great principle of substitution'. 'The employer has been regarded as the agent through whom competition acts in contriving and arranging the factors of production so that the

maximum of direct services should be performed at a minimum money cost.' [P : 662, 599-600] Thus by 'the law of substitution'—a special and limited application of the law of survival of the fittest—the entrepreneur searches endlessly for best practice with existing technology and for new technology. The driving force remained the individual entrepreneurs and the role of them are central to the optimizing procedure<sup>12)</sup>.

### 3.3 Forms of Management : Business Organization

Different forms of business management are treated in connection with the supply and development of free initiative and business ability. Marshall examines the advantages and disadvantages of private firms and joint-stock companies, co-operative societies and public corporations, which were taking increasing share in business management. He is most fearful of 'the social perils of bureaucratic methods' in the management, i.e., fears that bureaucratic inertia or the stifling of free initiative would remove vital evolutionary forces for economic progress. He says that creative ideas and experiments in business technique and organization are very rare in Government undertakings, and not very common even in private enterprises which have drifted towards bureaucratic methods as the result of their age and large size. [P : 304]

Criticizing collectivist control, he admonishes in "Social possibilities of economic chivalry"; 'The difficulties of collectivism should be studied much more carefully, before the scope for creative enterprise is further narrowed by needlessly intruding collective administration into industries in which incessant free initiative is needed for progress.' [Marshall (1907) : 346]

He favours the method of private partnership, which was capable of adapting itself to a great variety of problems: 'it is very strong and very elastic'; 'it has played a great part in the past, and it is full of vitality now'.

Not very long ago the representative firm in most industries and trades was a private partnership; ...Its plant had become larger and more various, until it commanded all, or nearly all, those economies of production on a large scale, that were inherent in the most advanced methods then known for its particular branch of business. *Its own (Internal) economies were not great: but it took its part in affording a large market for firms in branches of manufacture, which supplied it with made or half-made materials: and in developing (External) economies of general organization, which gradually became common property.* Thus each firm, though of moderate size, might reasonably hope to obtain most of the advantages in production, which would be accessible only to vast businesses, if each had been mainly dependent on its own resources. [IT: 314-15; italics added]

As regards the joint-stock companies, while recognizing their 'paramount influence on economic structure', Marshall was quite cautious about their development. Then following J. S. Mill's arguments, Marshall favourably argues for co-operation and profit-sharing, saying that 'co-operative association in its ideal form' might avoid the chief dangers of joint-stock companies, although it has difficulties in the business management. Co-operation among the kindred busines-

ses and industries, not within the firm, will be seen in section 4 below.

Referring to G. D. H. Cole's schemes of National Guilds, Marshall wrote later: those new schemes look only at the surface difficulties of business; they take little thought for its dependence on insight and fore-sight, on the leaders of industry in taking risks on their own shoulders. 'Mr Cole seems to follow closely in the paths of St Simon, Fourier, and other early socialists... the vast difficulties of modern business organization are so completely left out of account.' [IT: 651, 660]

### 3.4 Weakness of the Joint Stock Company: Limits to Organization Within the Firm

In *Industry and Trade*, Book II, Chapter VIII "Business organization: the growth and influence of joint stock companies", Marshall argues on 'good and evil of the progressive supersession of private businesses by the joint stock companies' and concludes that

recent developments call only for some mitigation, not for a reversal, of the judgment of the English business men that *the conversion of a private business into joint stock company*, though occasionally inevitable and very frequently convenient to those immediately concerned, sometimes *acts adversely to national prosperity and industrial leadership.* [IT: 327-28; italics added]

There was the tendency to an increase in the size of businesses, with the transference of responsibility from the owners of each business to its salaried managers and officials. Marshall thought that 'this would have been impossible had

there not been a great improvement in the morality and uprightness of the average man'. For in the seventeenth and eighteenth centuries the great trading companies broke down largely in consequence of the corruption and selfishness of their officials. Since Adam Smith, the distrust in the method of joint stock company and the trust in the private partnership and co-operation were common through J. S. Mill to Marshall<sup>13</sup>).

Marshall elucidates 'the fiduciary element in corporate administration': The owner of business, when contemplating any change, is led by his own interest against the whole loss. But the private interest of the salaried manager often draws him in another direction: the path of least resistance and least risk is generally that of not striving energetically for improvement, and of finding excuses for not trying improvement until its success is established. [IT : 324]

The single owner may trouble little about mechanical checks on the honesty of his employees. There is no shirking by his foremen or workmen. But the officials of joint stock company can seldom take such risks. Their accountant's work must be full and precise; and so arranged as to be a system of elaborate checks and counterchecks. 'Such a system is necessarily wasteful of effort, and hostile to elasticity: and here lies a chief disadvantage under which a joint stock company lies in competition with a private firm.' In so far as a system of checks represses elasticity and initiative, it is an injury to the community as well as to the company. 'A tendency to ossification of the social organism might be feared as the result of bureaucratic habits of shirking troublesome initiative.' [IT : 324-25]

#### 4. Monopolistic Tendencies and the British Way: Competition and Co-operation

In *Industry and Trade*, after a survey of "Some Origins of Present Problems" in Book I, Book II and Book III deal with 'the growth of massive production and the ever increasing size of the representative business unit' in industry and trade. Book II "Dominant Tendencies of Business Organization" is concerned with the methods of business in open markets, Book III "Monopolistic Tendencies: their relations to public well-being" is with those in some degree under monopolistic control. Marshall then remarks; 'Competition' and 'monopoly' do not cover the whole field of industry and trade. Some good work is done by associations which aim at the joint performance of special tasks. Some of this 'cooperative work' has long been done by several Institutes of Engineers and others. [IT : 178]

In Book III, after the chapters on 'influences of monopoly on prices' and 'competition and monopoly in transport', Marshall argues in Chapters VII-VIII on "Trusts and cartels: American experience", and in Chapters IX-X on "Trusts and cartels: German experience", then in Chapters XI-XIII on "Aggregation, federation, and cooperation in Britain's industry and trade". Finally Marshall dedicates Chapter XIV to "The decline of exclusive class advantages in industry," saying that 'the future may be made brighter than the past ...by a fuller recognition of the dignity of man, and cordial cooperation among all the various ranks of industry, and by a continued development of the fundamental principles of the Whitley Report.' [IT : 650]

#### 4.1 Strong Individuality and Free Enterprise

There appeared a firm resolve to reconsider the British methods in relation to the problems in the new age of big business, and to the solutions in America and Germany. Marshall intended to apply the instruction afforded by experiences in America and Germany to problems of Britain, and to suggest that 'the strong individuality of the British race may find its highest development under the guidance of the spirit of constructive cooperation'. [IT : 577]

First Marshall discusses the sources of the strength of British businesses and sees strong individuality and free enterprise as very central motivating forces in economic progress: 'the strong individuality', which created Britain's industrial leadership, is still her 'most important asset', and ought to be cherished as 'a priceless national asset'. [IT : 582-83]

Although praise must be given to the constructive work of giant businesses like German cartels, where it is not demanded by technical considerations, 'the immediate increase of strength...might be purchased at too great a price: the value of that free individuality...is apt to be underrated in a hasty view.' The advantages which Germany has derived from a semi-military organization of industry are not in fact as great as may appear; and 'immediate material gains, obtained at the expense of a diminution of the spirit of free enterprise, may prove to have been too dearly bought.' [IT : 577-78, 582]<sup>14)</sup>

Competition between small and medium size businesses was a vital energizing force for economic progress. Strong individuality 'may enable a multitude of British businesses of moderate size to hold their own against powerful aggregations in all those industries, in which no

over-mastering technical advantage belongs to massive, continuous production.' So vital to Britain's prosperity is the maintenance of 'full freedom for horizontal, rather than vertical expansion', that the country has a deep interest in defending the home market for everything to purchase against an artificial manipulation of its prices by cartel. [IT : 584, 590]

The experience of the State in organized specialization during the world war I didn't need much for gigantic individual establishments. It would testify that 'standardization, specialization and thorough organization, whether automatic or deliberately contrived, may enable a multitude of businesses of moderate size to attain nearly every important efficiency and economy' which appear to belong exclusively to giant businesses. [IT : 593] Marshall concluded the chapter on 'Further technical influences on the size of the business unit' in Book II :

'At any given time and in any given condition of industrial technique, *there is likely to be a point, beyond which any further increase in size gives little further increase in economy and efficiency.* And this is well; for small businesses are on the whole the educators of the initiative and versatility, which are the chief sources of industrial progress.' [IT : 249; italics added]

#### 4.2 Small and Medium Size Businesses : Competition and Constructive Co-operation

In the same chapter on 'Further technical influences on the size of the business unit', Marshall argues on 'opportunities of a strong man with moderate means, who concentrates his energies on a speciality'. It comes that, though the small producer

is constantly threatened with extinction ; yet he survives. The demand for labour in those parts that still require individual attention, will have grown with the increased output : and 'the scope for elasticity, for the initiative, and for the watchful care about details, in which the small producer excels, may have been enlarged in one direction as much as it has contracted in another'. [IT : 247-48] And the number of small businesses is constantly growing, since their products are ever finding new vents in general markets as well as in the supply of special materials and machines to large businesses.

In "Some aspects of competition", he also argues that, although large firms have great advantages over their smaller rivals in making expensive and scientific experiments, these advantages count for little in the long run in comparison with 'the superior inventive force of a multitude of small undertakers'.

Large private firms, ...are yet, in proportion to their size, no less inferior to private businesses of a moderate size in that energy and resource, that restlessness and inventive power, which lead to the striking out of new paths. And the benefits which the world reaps from this originality are apt to be underrated. For they do not come all at once like those gains which a large business reaps by utilizing existing knowledge and well proven economies ; but they are cumulative, and not easily reckoned up. [Marshall (1890), 279-80]

The progress of technique, while pushing the small business man out of the main track of many industries, opens to him new opportunities, if he will apply energy and resource to developing some

speciality. [IT : 589] Again the growth of giant firms tends to impair the supply of that individual initiative, which is by far the most important element of national wealth : but that may be relatively slight, if open field be kept for small businesses in appropriate industries. Important means is constructive co-operation, especially in such standardization as will enable the small man to work for open market.

Marshall does not like giant business like 'the United States Steel Corporation, which alone controls an output of iron and steel greater than the whole production of the United Kingdom'. In his views, Sheffield skill makes fine cutlery of such excellent quality that none can surpass it : perhaps none can equal it. 'Sheffield is the home of some of the most delicate of British steel industries ; and also of those which are beyond the range of any but a mammoth business : and Sheffield is in all these respects an epitome of Britain.' [IT: 587-88]

As regards the differences between the German and the British peoples in character and method of organization, Marshall says : while such powerful and enterprising businesses as those of Armstrong and Vickers were content to buy the steel on which they worked, there was 'no over-mastering advantage in deep vertical expansion' similar to the German steel industry dominated by a small group of giant capitalists. The relatively mild policy of British steel associations gave great freedom to each business to choose its own lines of development. [IT : 621] Marshall highly regards the importance of co-operative division of labour within the industry or district, not within the firm, as method of organization.

What suits their [Englishmen] char-

acter best is to have a broad and solid association based on many smaller associations, not controlling and directing them, not interfering with their freedom without absolute necessity, but acting as a common center for help and advice ; serving as a channel by which any member that is in special need may receive the aid of others, and taking perhaps an active part in administering aid and the wholesome advice by which it may perhaps have to be accompanied. ...Broad-based, highly-organized freedom of action is characteristically English : and the true future of English co-operation lies in adhering these lines. [Marshall (1889), 249]

#### 4.3 Automatically Specialized Organization : Co-operative Network of Organization

Thus occupied with the sources of the strength of British businesses, Chapters XII-XIII are chiefly devoted to various forms of co-operation for constructive purpose. Marshall starts with the section entitled 'Some British textile industries have developed efficient standardization and specialization almost automatically', saying that ; *'The broadest, and most efficient forms of constructive cooperation are seen in a great industrial district where numerous specialized branches of industry have been welded almost automatically into an organic whole.'* [IT : 599 ; italics added]

For Marshall, the partial standardization effected by custom has effected automatic organization of industry. This organization included specialization, which dispensed with any complex arrangements in each individual business ; since *'the external economies, which even a small business thus obtained, were*

*generally far more important than those which the largest business in the world could obtain by its own efforts.'* Following and enlarging Adam Smith's ideas of division of labour, Marshall argues : Almost every branch of industry depends directly or indirectly on hundreds, if not thousands of other branches, at home and abroad, for various parts of its plant and material. *'In one sense the whole world, in so far as it is in touch with western trade, is a single workshop : in a much fuller sense every compact industrial district is one.'* [IT : 600 ; italics added]

Britain was the chief home of the automatic cooperation of many industries ; and the modern methods of massive manufacture were pioneered by the textile industries. Thus he turns to the classic case of automatically specialized organization ;

Lancashire, where may be seen perhaps the best present instance of concentrated organization mainly automatic. Nature had favoured Lancashire with good access to the sea, to coal and to iron ; and also with a climate remarkably suited to the great cotton industry. Moreover the character of the population fitted them to develop the engineering industries. Thus *makers and users of textile, and especially cotton, machinery have had nearly all the advantages of concentrated effort that could belong to a population of more than a million persons in a single composite business ; while avoiding the cumbersome network of organization that would be required by it.* Therefore dealers of various kinds flock to Manchester from all quarters of the globe ; and they are able, by aid of motor cars, to enter into direct contact with makers of innumerable spe-



cialities spread over an area of some two hundred square miles.' [IT : 600-1; italics added]

The specialization is thoroughly effected without conscious effort, especially in those branches, which are mainly in the hands of a multitude of independent businesses of moderate size. Fine spinning, coarse spinning, and weaving are localized separately. Individual firms frequently specialize on a narrow range of counts for spinning. Blackburn, Preston, Nelson and Oldham are centers of four different classes of staple cotton cloths, and so on. Automatic organization has predominated, especially in the cotton industry which 'by reason of its magnitude and the extent to which specialization has been carried, is probably the most efficient distributing organization in the world.' Trusting almost exclusively to automatic organization the British cotton industry has surpassed all its rivals in size and in efficiency. In fact, in those finer goods, which owe most to skill and admit of the highest rates of remuneration to labour, 'it is without a rival'. [IT : 601-3]<sup>15)</sup>

#### 4.4 Some Critics

Unfortunately, as Marshall committed these words to print, wrote Lazonick, 'the automatic market mechanism was breaking down in the face of planned co-ordination of the specialized division of labour abroad — particularly in Japan'<sup>16)</sup>. Indeed, J. M. Keynes, after writing a long Memoir "Alfred Marshall, 1842-1924", was in the later 1920s quite deeply involved in reorganizing Lancashire cotton industry by rationalization or cartelization, criticizing 'unorganized individualism' in Lancashire as 'hopelessly out of date'. He says that 'they are living industrially in the old world; and they are

suffering intolerable pains from their failure to adapt themselves to the conditions of the new economic world', and that 'the day of the small unit is over, partly for technical reasons, even more for marketing reasons'<sup>17)</sup>.

However much Britain's individualistic structures of industrial organization may have contributed to British economic success in the nineteenth century, the same structures posed formidable obstacles in the twentieth century in an international economy dominated by concentrated and collectivized structures of industrial organization such as had arisen in Germany and the United States. As is well-known, subsequent commentators on British manufacturing industry, especially from the later 1950s, took a very different view from Marshall. They criticized British management heavily for its lack of specialist skill, its inability to master large-scale organization and mass production and for the confrontational aspects and slow institutional change of its system of industrial relations. An enormous amount of the criticism of British industry in the years after 1945 concentrated on the failure of management to adopt the United States forms of large-scale organization<sup>18)</sup>.

However, writings since the 1980s seem to have brought support to Marshall's views and analysis<sup>19)</sup>. Marshall developed the ideas on constructive co-operation based on strong individuality or on industrial organization of co-operative network largely based on external economy. His views and analysis on the 'automatically specialized organization' or industrial district as 'the most efficient forms of constructive cooperation' of small and medium size firms seem to be much worthy to be re-visited and re-appraised against the background of a

growing interest in the industrial district as a model of industrial organization and the flexibly specialized production systems as an alternative to the large scale business firms.

### 5. Epilogue

In the final chapter of *Industry and Trade*, discussing the decline of exclusive class interests in industry, Marshall stressed the importance of the movement voiced by the Whitley Report 'for enlarging the influence of Employees over those affairs, connected with their employment, in which they are most nearly concerned.' He wrote on the 'Possibilities of the future', stressing the extent to which industrial strength was being increased by the broadening of the basis, from which could be drawn men of the high faculties needed for the more responsible posts in industry.

It has contrived larger opportunities for the masses of the people to develop the high faculties born in them: and the State can now look to the main body of workers as the source of much of that higher administrative work, which used to belong almost exclusively to the well-to-do. This change was emphasized by the Whitley Report, and it will be promoted by Joint Industrial Councils. [IT : 661]

For Marshall the progress of man's nature and faculty was 'the center of the ultimate aim of economic studies.' He conceived; '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<sup>20)</sup>.' The world-war I enforced rapid changes

in organization within industries and between industries: it increased the need for explaining to the people the urgency of new developments, and for enlisting their co-operation in overcoming the difficulties. Thus all were inclined to consider suggestions, made in the Whitley Report, for setting up the Joint Works Committees, leading up to the Joint Industrial Councils. The Report suggested that the 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. [IT : 643-44]

They were signs of healthy vigour, but they also suggested grounds for anxiety. For grave injuries might arise if strongly organized joint committees of employers and employed were tempted to use their power in the furtherance of their sectional interests. [IT : 394] The 'Achilles' heel' of Britain's industries attracted as much attention abroad as at home. An American writer remarked: 'In England men are thoroughly wedded to the system of restricted output. In New York one man will run three gear-cutting machines, but an English working man will run only one.' [IT : 641 n.]<sup>21)</sup>

If the short-sighted selfishness which developed the evil practice of stinting output be abandoned, Britain may prosper. And Marshall thought that nearly all of sectional interests were becoming increasingly plastic by the spread of education. [IT : 655, 4] Thus 'the future may be made brighter than the past by greater community of thought, action and sympathy.'

When man has been raised to a level far higher than he has yet attained, he will have raised the State also to far higher possibilities than it has yet reached: and then industry is likely to be recast on some plan not yet in sight. For human nature has developed new possibilities in almost every generation under quiet and orderly conditions; and it has progressed very fast in this country during the last fifty years. [IT : 650-51]

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The following abbreviations are used in making references to Marshall's two major published works. P: *Principles of Economics*; IT: *Industry and Trade*.

#### Notes

- 1) Hutchison (1978), p. 112. O'Brien (1990), p. 61.
- 2) (Marshall) *Correspondence* (1996) Vol. 2, pp. 293-94.
- 3) *Ibid.*, pp. 203-4.
- 4) Lazonick (1991), p. 147.
- 5) Marshall (1890a) Vol. 2, p. 45. Marshall (1919), p. v.
- 6) Williams (1986), pp. 232-33.
- 7) Marshall remarked in *Memorandum on Fiscal Policy of International Trade*, that 'she [England] cannot be the leader, but she may be a leader.' [Marshall (1903), p. 404.]
- 8) Smith (1916), p. 25.
- 9) For all 'the poverty of England's educational system', Marshall believes that 'she still holds a leadership, almost unchallenged..., in that education of character which is obtained from individual activities, rather than from instruction'; he regards this as 'real' education. [IT : 96]
- 10) He later treats the supply price of that organization by which business ability and capital are brought together, and calls it 'gross earnings of management'. The supply price of business ability itself is called 'net earnings of management'. [P :

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- 11) See Wilkinson and You (1992), especially, '1. Marshall, industrial organizations and industrial districts'. They say that 'these positive external economies to individual firms stem, fundamentally, from their geographical proximity rather than any institutional structuring.' [p. 8.] For Marshall's views on 'industrial atmosphere' such as that of Sheffield or Solingen, see IT, pp. 284, 287.
- 12) See O'Brien (1990), pp. 72-73. For the contemporary arguments on entrepreneur, see Walker (1876), pp. 243-46; Bagehot (1876), pp. 264-65; Marshall (1881), pp. 114-18.
- 13) Marshall (1897), p. 307. A. Smith (1776), Vol. 2, p. 264. J. S. Mill (1909), pp. 137-44.
- 14) See Whitaker (1977), especially, 'V. Marshall's views on free enterprise'.
- 15) See also IT, p. 286. Wilkinson and You (1992) remarked on Marshall's perception of industrial district: 'The concentration of the member firms of an industry in close geographical proximity allows all to enjoy the benefits of large-scale industrial production and of technical and organizational innovation which are beyond the scope of any individual firm.' [p. 6.]
- 16) Mass and Lazonick (1990), p. 18.
- 17) Keynes (1927), pp. 641-42.
- 18) E. g., Elbaum and Lazonick (1986); Gospel (1992), Part 3; Tiratsoo and Tomlinson (1993), (1998).
- 19) E. g., Sabel and Zeitlin (1985); Becattini (1990).
- 20) Marshall (1890) Vol. 2, p. 75. Marshall (1889), p. 229.
- 21) Quoted in *The Economist* of April 26, 1919.

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