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CUSTOM AND COMPETITION

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INTRODUCTION

Marshall grounded his economics on Mill's *Principles* (1848) and commented extensively on various aspects of the treatise. Hence the Millian juxtaposition of the 'two conflicting principles' of competition and custom must have provided the background for many of Marshall's observations on the topic. But Marshall had a different vision: Rather than depicting custom and competition, like Mill, as two conflicting albeit interacting forces, he conceived them as end-points of a continuum, with custom as the passive and competition as the active pole, quite in accordance with the motto of his *Principles* that there is continuity in nature - *natura non facit saltum*.

In the following two sections I shall outline Marshall's view of custom and competition. Although custom is of great importance, it is 'passive': It tends to maintain the current state of affairs. In contrast, competition or, as Marshall would prefer to say, 'free enterprise' and the 'the equilibration of measurable motives,' is an 'active' force that shapes custom in the long term. It turns out that the idea of passive custom clashes with the observation that modern markets have not eroded the 'habits of trustfulness' on which their functioning relies. In the concluding section, I comment on this problem.

1. PASSIVE CUSTOM

Marshall's approach to issues of custom and competition may be conveniently phrased in terms of his moving equilibrium 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. Custom acts as a constraint on free choice. (The mix between custom and deliberate choice differs across societies. In traditional societies, custom preponderates, as it does not leave much room for free choice, whereas modern societies tend to leave more latitude for choice and give less weight to custom.)

The prevailing mix of custom and choice governs interaction and induces certain outcomes as temporary equilibria. Because custom is never fully rigid and sharply defined, such temporary equilibria may entail slight deviations from customary

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patterns. These deviations become customary after a while, therby shifting the custom. In this way, custom will yield to outside forces. Marshall depicted this as 'friction':

> ... there is a certain class of influences on human action which do not tend to cause change: they play the same part in the moral world that friction does in the mechanical. When several forces are acting on a thing friction throws its strength with perfect impartiality against whichever of them are tending to prevail over the others and to cause movement. So whatever be the social forces that are tending to prevail over others and to cause change, they are opposed by the forces of individual habit, of social custom, of apathy, timidity and ignorance; or to sum up the whole in one word, by the want of free enterprise. Their influence is none the less disturbing because custom and habit have themselves in a great measure been slowly fashioned in the course of long generations by the almost unconscious balancing against one another of the motives for and against different courses of action. (Marshall, 1961, 140-1).

Marshall suggest that very traditional customs like those encountered 'in the East' can be understood in this way as the outcome of competition, or, as he preferred to say, 'the equilibration of measurable motives'. Economic arguments will break up many costums like a telescope breaks up a nebula:

> But ... economic science has done much and I believe will do a great deal more in applying contemporary observations of the East to explain the economic past. In particular I think it will break up and explain what are called economic customs, very much as the telescope breaks up a nebula. To say that any arrangement is due to custom, is really little more than to say that we do not know its cause. I believe that very many economic customs could be traced, if we only had knowledge enough, to the slow equilibration of measurable motives: that even in such a country as India no custom retains its hold long after the relative positions of the motives of demand and supply have so changed that the values, which would bring them into stable equilibrium, are far removed from those which the custom sanctions. (Marshall, 1885, 169-70).

This does not imply, however, that the forces of custom are weak. They may be quite strong, but they are passive and and will ultimately yield to the forces of competition:

> It has been urged that as custom is often more powerful than competition, it ought not to be spoken of slightingly as a mere friction. But this is entirely to misapprehend the meaning of the term friction. A friction is not necessarily a small thing, but it is a passive

> resistance; and an active force, however small it is, acting on a material that is not perfectly rigid, will in the long run overcome any amount of friction. Human nature is never absolutely rigid; and custom never holds its own in opposition to a strong active economic force working for many generations persistently in the same direction. (Marshall and Paley-Marshall, 1881, vi-vii).

The customs we find to-day are always functional. Sometimes, however, they will be maintained as mere atavisms:

> It is true that when a habit or a custom, which has grown up under one set of conditions, influences action under other conditions, there is so far no exact relation between the effort and the end which is attained by it. In backward countries there are still many habits and customs similar to those that lead a beaver in confinement to build himself a dam. (Marshall, 1890, 21).

Yet such atavisms will be eroded in the long term. In short, and using Eric Jones' (1995) terminology, Marshall assumes 'cultural fixity' in short run and 'cultural nullity' in the long run. This explains in part that Marshall places particular emphasis on the constraining character of custom - the 'yoke of custom' that is 'hindering the method of production and the character of producers from developing themselves freely' and sees the positive aspect of custom predominantly in its 'protective force.' (Marshall, 1890, 12, 560, 641).

2. COMPETITION

As remarked already, Marshall expressed uneasiness with the term, as it comprises two elements: The pursue of one's own advantage and an attempt to harm competitors. It is the first element that is emphasized by Marshall, while the second element is discounted. He writes:

> The strict meaning of competition seems to be the racing of one person against another, with special reference to bidding for the sale or purchase of anything. This kind of racing is no doubt both more intense and more widely extended than it used to be: but it is only a secondary, and one might almost say, an accidental consequence from the fundamental characteristics of modern industrial life (Marshall, 1890, 5),

and he notes that there is no term that expresses the characteristics of what is inappropriately referred to as 'competition' adequately and goes on to characterize 'free competiton' as follows:

> A man competes freely when he is pursuing a course, which without entering into any combination with others, he has deliberately

> selected as that which is likely to be of the greatest material advantage to himself and his family. He is not supposed to be selfish: in fact the normal supply of all grades of industry, except perhaps the lowest, depends on the unselfish sacrifice by parents of their own pleasures for the benefit of their children. But he is supposed to be consulting his own material advantage and that of his family to the comparative neglect of the welfare of others. (Marshall and Paley-Marshall, 1881, vi-vii).

But spiteful behavior - in the sense of harming competitors rather than improving one's own performance in order to win the contest - is certainly encouraged by the rise of free competition and the weakening of customary constraints:

> Again, the modern era has undoubtedly given new openings for dishonesty in trade. The advance of knowledge has discovered new ways of making things appear other than they are, and has rendered possible many new forms of adulteration. The producer is now far removed from the ultimate consumer; and his wrongdoings are not visited with the prompt and sharp punishment which falls on the head of a person who, being bound to live and die in his native village, plays a dishonest trick on one of his neighbours. (Marshall, 1890, 7).

Yet the rise of competition has not caused an overall moral decline; rather the modern forms of free competition depend on habits of trustfulness that have not emerged in more customary societies:

> The opportunities for knavery are certainly more numerous than they were; but there is no reason for thinking that people avail themselves of a larger proportion of such opportunities than they used to do. On the contrary, modern methods of trade imply habits of trustfulness on the one side and a power of resisting temptation to dishonesty on the other, which do not exist among a backward people. Instances of simple truth and personal fidelity are met with under all social conditions: but those who have tried to establish a business of modern type in a backward country find that they can scarcely ever depend on the native population for filling posts of trust. It is even more difficult to dispense with imported assistance for work, which calls for a strong moral character, than for that which requires great skill and mental ability. (Marshall, 1890, 7).

Growth of competition has, thus, not eroded the moral basis of society. This observation is presented as a fact, but such an observation poses a problem for Marshall's theory of custom.

3. CUSTOM AND GENERALIZATION

That competition has produced "habits of trustfulness" in spite of an increase in opportunities for fraud runs against the grain of Marshall's thesis on the passivity of custom, and he notes this himself:

> Adulteration and fraud in trade were rampant in the middle ages to an extent that is very astonishing, when we consider the difficulties of wrong-doing without detection at that time. (Marshall, 1890, 7).

Whether wrongdoing was harder to get away with in the Middle Ages may be doubted. Yet the problem of how trust emerges in anonymous settings is central for any proper understanding of the functioning of modern anonymous markets. It requires, it seems to me, a modification of the idea of passive custom, yet cultural fixity cannot be the answer: It is all too obvious that cultures are malleable in many ways (Jones, 1995). One possibility is to look at the psychological forces that shape custom (Schlicht, 1998). As customs must be learned and transmitted, they must rely on features of simplicity and clarity and imply a tendency for generalization: The custom of walking on the left hand side of the sidewalk induces a tendency to stick to the left on staircases and in supermarkets. This idea implies an internal structure of any system of custom, brought about by a tendency to generalization. The active force of custom would then arise from such generalization. This is an "internal" force of custom that enforces an overall interdependence of all kinds of customary and market phenomena. I have argued that firms - as creatures of the market - will devise internal mechanisms for fostering co-operation as long as the production process benefits from those traits of "customary honesty." These behaviors will generalize to all kinds of social interaction, including market interaction, and will provide the moral underpinnings for the functioning of anonymous markets (Schlicht, 2004).

The thought is quite close to Marshall's way of thinking. He notes:

> For the business by which a person earns his livelihood generally fills his thoughts during by far the greater part of those hours in which his mind is at its best; during them his character is being formed by the way in which he uses his faculties in his work, by the thoughts and the feelings which it suggests, and by his relations to his associates in work, his employers or his employees. (Marshall, 1890, 1).

This statement obviously rests on a generalization thesis - that attitudes shaped at the workplace form "character" in general.

Combining Marshall's view of custom with a generalization thesis may help to overcome another weakness of Marshall's theory of custom: Its inadequacy regarding discontinuity and tension. As Marshall (1890, 559) noted, customs may break down, yet passive custom must be expected to adapt sluggishly but smoothly

to changing circumstances, and it seems difficult to understand episodes of sudden growth or decay from Marshall's theoretical perspective. Such "punctuation" may occur not only with respect to technology, as Mokyr (1990) has maintained, but also with respect to systems of customary arrangements. With generalization as an active force, custom A is stabilized both by its instrumental usefulness and because it is a generalization of custom B. Likewise, custom B is stabilized both by its usefulness and by virtugeneralization from custom A. As a consequence, a weakening of the instrumental reasons for A will weaken A *and* B, and this will weaken A still further: Generalization will induce "cumulative causation" in the sense of Myrdal (1944), and this may entail punctuation.

It remains a somewhat open question, however, whether a replacement of "passive custom" by "custom, passive but structured by generalization" provides a satisfactory improvement over Marshall's treatment with respect to long-term issues.

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