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THE
SCIENCE OF ECONOMICS

A CRITICAL ANALYSIS OF ITS PRINCIPLES.

Volume I. Part I.

METHODOLOGY.

BY

L. M. KAPOOR, M. Sc. Econ. (Lond.)

*Professor of Finance and Organisation, the University of
the Panjab, the Hailey College of Commerce, Lahore.*

WITH A FOREWORD BY

Dr. HUGH DALTON, D. Sc. Econ. (Lond.) M. P.

*Cassel Reader in Economics in the University of London,
formerly Under-Secretary of State for Foreign Affairs.*

THE ENGLISH BOOK DEPOT

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IN PREPARATION

By the same Author.

- I. Similar parts of this book on Production, Value, Money and Exchange, International Trade, Distribution and Public Finance.
- II. Post-war Developments in Monetary Theory.
- III. Monetary Theory and Practice directed towards Economic Recovery.
- IV. Reflections on Education in general, with a particular examination of Commercial Education.
- V. Organisation of Commerce and Industry.

TO

THE LATE PROFESSOR

EDWIN CANNAN

**EMERITUS PROFESSOR OF POLITICAL
ECONOMY**

IN THE

UNIVERSITY OF LONDON.

FOREWORD

By

**Dr. Hugh Dalton, D. Sc. Econ. (Lond.) M. P., Cassel
Reader in Economics in the University of London,
formerly Under-Secretary of State for Foreign
Affairs.**

Professor Kapoor is an old student of mine. He attended my lectures on Economic Theory at the London School of Economics in the session 1920-21. Since then he has been appointed to a responsible teaching post in India and is thus one of that increasing band of Indian economists whom the University of London, jointly with Indian Universities, can claim as one of its sons. In this book he has set out to lay the foundation of clear and instructive economic thinking in the minds of the rising generation of Indian students. The opportunities, and the social need, for fruitful economic study, combining theory with practical conclusions, are no less great—are, indeed, perhaps greater—in India than in most other countries in this age of rapid transition and of perilous perplexity. Professor Kapoor has made a most helpful contribution in this direction. His book should be widely read both by students of Economics at Universities and Colleges and by members of that wider public which rightly desires to comprehend some of the fundamental problems of our day.

PREFACE.

This book has been written with the object of acquainting the general reader and the student with the fundamentals of the science of Economics. It may be said that this is a commonplace because almost every author puts forward the same claim and that there are already numerous books in the market which satisfy the same want quite as well. Consequently in the opinion of some people there is no room for another book which does no more than this. But I maintain that although I keep the same object before me as many others have done, my method of approach is sufficiently different from others to justify my venture. Most students, at least in my part of the world, learn by heart some very simple truths about Economics which neither they nor their favourite authors of these very cheap books have sufficiently digested or assimilated. The result is that neither the Science makes any progress nor do they themselves gain anything by this kind of smattering of knowledge. While, as regards style, arrangement and language, etc., we should do all we can, to express the essentials of the science in as lucid a manner, and make them as easily comprehensible even to the beginner, as possible, yet I doubt very much the wisdom of aiming at too great a simplicity in exposition which, in most cases, can be attained only at the cost of sound thinking. Such an attempt leads us to be too uncritical and to be satisfied with an incomplete and superficial treatment of the subject. Let us make Economics as popular as possible by all means. But at the same time let us not sacrifice sound and deep thinking at the altar

of popularity. We must realise that things too easy to understand are mostly shallow and superficial. Most often the scientific truth is hidden behind the apparant and the obvious. Let us not court lucre to the extent of trying to push the sale of books by pandering to the taste of the lazy. It is, in my opinion, a great mistake to lead the beginner to believe that Economics is such a simple subject that very little effort is necessary to know this science inside out. The facts are, however, just the contrary. There are so many different factors and forces working in, and from all sorts of directions in respect of any social matter that to train oneself to take a comprehensive view of any question and thus to arrive at a right conclusion is hardly the task for the easy-going. Somebody has said that by teaching a parrot to repeat "Supply and Demand" you can make an economist of him. And one does come across many such human parrots who pass as very good students of Economics. In many cases greater efforts are necessary to rid such people of the unassimilated popular half-truths about Economics than to teach them how to distinguish between the economic grain and the chaff.

The present work, therefore, does not contain simple formulæ which the student may learn by heart merely for passing an examination with the bare minimum of marks. I regard healthy controversy as the spice of life. It is certainly the essence of a social science. I have, therefore, not hesitated to discuss even those matters on which there is a great difference of opinion amongst economists. Without such discussion one cannot have enough

intellectual gymnastics which is so indispensable in one's education. Without this, again, the capacity to distinguish what is economically right from what is wrong cannot be developed. From a facile teaching of Economics only muddled thinking results. Exercises in checking popular economic fallacies of the past as well as of the present must be given to the mind before sound economic thinking can be achieved.*

It will be idle to pretend that there is no other book serving even that purpose. For instance, Professor Edwin Cannan's works are masterpieces and I must confess that these are the main sources of my inspiration. Professor Pigou's 'Economics of Welfare' and 'Industrial Fluctuations' take the same line of treatment of other important economic problems. Professor Fisher's 'Nature of Capital and Income' is another example. But these and other works, extremely valuable though they are, being a bit too advanced for the beginner, remain practically a dead letter to those who are brought up on very cheap stuff which can hardly be called Economics. This book, therefore, is intended to lead to an intelligent appreciation and a firm and clear comprehension of the fundamentals of the science. And if I succeed in creating an interest in the reader for higher works such as those just mentioned, I

*Once an interesting incident occurred in my class room. While I was explaining the point of view of the Mercantilists a student anxiously enquired whether that point of view was right. And when I said it was not, he looked like protesting against my teaching wrong things. I, then, explained how the right thing is better appreciated and more firmly grasped when it is pointed out in a striking contrast with the wrong thing.

would have ample reasons to be satisfied that I have done my work.

One of the great handicaps from which Economics suffers is the lack of a fixed terminology. Even very prominent economists like Marshall use the same terms in different senses in the same book in different contexts. Take for instance the term 'Utility'. In defining production* it is said that man does not produce matter. By shaping and re-shaping the matter already existing he simply produces utilities. Here one would imagine that utilities are objects or services (*e. g.*, that of a merchant who according to Marshall produces time and place utilities). But in connection with the explanation of the law of 'Diminishing Marginal Utility'† it is obvious that the term means 'satisfaction'‡. It is inconceivable that by consuming more and more of a particular article that which diminishes is anything else than the rate of increase of satisfaction itself. Similarly in connection with the idea of the consumer's surplus the term utility means satisfaction. † Yet another definition is given by some other writers *viz.*, the utility is the 'power of satisfying want'.§ Even this meaning is not applicable to

* Marshall : Principles of Economics, p. 63, VIII ed.

† Marshall : Principles of Economics, pp. 92-93, VIII ed. See also

(i) Marshall : Economics of Industry, p. 63 ed. 19 Macmillans. (ii) Taussig : Principles of Economics, Vol. I, p. 121, III ed. 1921 Macmillans (iii) Moreland : An Introduction to Economics for Indian Students' p. 160 1913 Macmillans. (iv) The literal meaning given in Dr. Annandale's 'The Concise English Dictionary' on p. 747, is usefulness. It must, however, be remembered that 'desire' or satisfaction are psychological facts and usefulness is an external fact See Thouless: Social Psychology Foot-note on page 276 University Tutorial Press, London, 1927 ed.

‡ Marshall : Principles of Economics, p. 125, VIII ed.

§ It is generally believed that Marshall himself has said so. † But I have failed to find this definition of the term from his Principles. This, however, is given in Thomas Elements' of Economics, published by Gregg, p. 31, III ed.

the law of Diminishing Marginal Utility as it is not the power of satisfying but the rate of increase of satisfaction itself which really diminishes. All equal portions or quantities of an article have equal power of satisfying want. And yet any of them will give more satisfaction if used first in order, than the satisfaction obtained from the second equal portion, and the satisfaction obtained from the second equal portion will be more than that obtained from equal portion used on the third occasion. Any one of these equal portions may happen to be used first or second or third and so on, yet the sequence of rate of satisfaction will remain the same. Thus it is obvious that 'utility' in connection with this law means neither the goods and services as is supposed to be the case with the definition of Production nor does it mean power of satisfying want.

From the nature of the subject the use of words in senses more than one in different contexts cannot altogether be avoided. Economics makes use of the words found in ordinary parlance. As Cannan says "most commonly-used words have many different meanings, and we can only tell which is the right one at the moment by looking at the context or the surroundings..... It is only the more illiterate economists who complain of this and fail to see that to tie words down to one meaning only would make it impossible for us to communicate our thoughts unless our vocabulary was enormously enlarged. The others are content to make sure that both they themselves and their audiences understand in which of its various senses a word is being used."¹ This is perfectly true. Economists are certainly at liberty to take words from

1. Pp. 42-3 "Economic Scarcities" P. S. King 1933.

wherever they like and use them in as many senses in different contexts as they are used in the ordinary language. Yet they would be greatly facilitating the task of the beginner if, at least as regards technical terms, they attach one and the same meaning throughout their works. They may use even these words in any sense they please in their language. But as technical terms, the desirability of a fixed sense or definition cannot be exaggerated. Cannan himself says "The first thing to do in economic, as in all other discussions, is to make sure that we are all talking about the same thing."² In this book, therefore, particular attention has been paid to the clarity and unambiguity of definitions.

On the other hand, it is rather unfortunate that in some other respects even some profound thinkers like Marshall have sought to encumber some departments of Economics with seemingly useless and subtle distinctions and a plethora of terms. For example, 'Capital' has been divided in a needlessly large number of classes like Fixed and Circulating Capital, Production and Consumption Capital, Auxiliary, Floating, Personal and Private Capital, etc., etc.

The object of coining terms is to fix some ideas or conceptions in the mind so that higher theories may be built on the basis of these conceptions. Judged from this point of view the uselessness of this galaxy of terms at once becomes apparent. This is, therefore, the second leading idea with which I have written the following pages, *viz.*, fixed and clear definitions of terms on the one hand and the avoiding of unnecessary multiplication of terms and classifications on the other.

It is customary to express gratitude for the writings of some others by mentioning their names. I am indebted to so many in this respect that it will be impossible for me to count them all here. I have, however, mentioned Professor Cannan's name already. A poor pupil like myself has no better tribute to pay than dedicating this work to his erstwhile teacher. In a private letter Professor Cannan wrote to me that there was hardly anything new under the sun. Whatever one wrote somebody was sure to unearth some earlier writing and say that the former was not original because it had been said before by so and so. In the light of this I shall be loth to lay claim to any originality and leave the readers to judge in that regard. My gratitude is indeed great to all the well reputed masters of the science, like Marshall, Taussig, Clark, Fisher, and many others whose names are mentioned in the footnotes in numerous places. And it is none the less so even when I have disagreed and criticised any one or more of them in one place or another in the following pages.

I must, however, particularly mention the names of the Hon'ble Mr. Manohar Lal, M. A. (Cantab) (formerly the Minto Professor of Economics in the Calcutta University, sometime Minister of Education in the Punjab and at present Finance Minister in the same Province), Professor G. D. Karve, M.A., of the Fergusson College, Poona, Dr. Mohan Singh, M. A., Ph. D., D. Litt., Oriental College, University of the Panjab, Lahore and Mr. Kali Charan, M. A., formerly Currency Officer, Lahore, who went through some portions of the manuscript and advised me on several points and two of my own pupils Messrs. Dev Raj Bhatia, B. Com. and A. R. Shibli, B. Com. who helped me in proof-reading.

I am also very grateful to my wife who assisted me so greatly. Without their co-operation the following pages would not have seen the light of the day for many more years to come.

Sanda Road,

Lahore. •

April, 1937.

I. M. KAPOOR

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