

PRINCIPLES
OF
ECONOMICS

BY

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PREFACE

This volume is designed as a text for an introductory course in economic principles. Its scope is confined to a consideration of the more general and basic principles of the subject. An attempt has been made to start with those facts and postulates that are fundamental in the development of the science and from these basic notions to develop an orderly movement from production, markets and exchange, value and price, money, banking and credit, to distribution and the sharing of income. Finally, the thought is brought back to the end of economic activity in the consideration of consumption and the notions of economic welfare.

In the selection and organization of the topics treated, I have followed in the main, though not in all particulars, the traditional plan of presentation. Many of these topics have been proven by long experience in the class room to be serviceable. However, instead of chapters on economic history there has been substituted material descriptive of the present structure of economic life. The chapters on applied subjects, such as labor, corporations, railroads, taxation, etc. have been omitted because it is thought that the elimination of these topics will effect an economy in the students' time. In most institutions today, advanced courses are devoted to these subjects, and if they are covered in the first course, there would seem to be an undue duplication of effort. Hence this volume is confined to a treatment of general principles, leaving the applied topics for development in the more advanced courses.

Students taking up this subject for the first time are warned against certain difficulties that they are likely to encounter. In the first place the subject is concerned with matters of every day business experience, such as wealth, value, capital, rent, interest, profits, etc. We have to employ terms that are in common usage in business, but common usage will not satisfy the demands of scientific exactness. Therefore, the economist has to assign specific limitations to the meanings of these terms, or otherwise be led into hopeless confusion and endless controversy. Not-

withstanding the greatest care in this particular, one finds that after more than a hundred years of thought and study, there still remain wide variations in the usage of terms, even among the best informed authorities in the field. Because of this difficulty students should proceed with caution, not only in their own use of terms, but in putting the usage of an author to the test.

In the second place, the phenomena which constitute the subject matter of economics are as variable as human desires. This variability makes a vigorous demand on our powers of thought. If we hope to deal scientifically with this material, we must be prepared to exercise a high degree of flexibility in our thinking and must recognize that knowledge is not absolute in character. Those whose minds crave absolute knowledge are likely to be perplexed and disappointed, when they discover the limitations to the application of the principles developed in this field.

But who can devise an absolute rule for the adjustment of a wage controversy? Or who can predict with precision the price of wheat one year hence? Such questions do not lend themselves to an absolute solution. However, it is a great gain to be able to predict the direction of change, even though we are unable to express its quantitative effects with precision. Economic principles accomplish this purpose and enable one to formulate judgments, or render decisions, that serve most practical ends. Students very early need to learn that the principles developed in this field express tendencies but that these tendencies narrow the range of personal judgment. Even though the conclusions based upon these principles are only approximations, they are better guides for individual conduct, or for the development of social policy, than the spontaneous thoughts of untrained minds.

Lastly, most students come to the subject of economics with very definite prejudices and preconceived notions. Without conscious thought on our part most of us have accepted as fundamental certain assumptions in regard to the existing economic relations. To challenge these is to shake one's faith in the correctness of the reasoning underlying the principles themselves. On this account, the attitude of mind of the average person toward economics is different from what it is toward other fields of learning. One seldom challenges the conclusions of the physicist or the chemist on the basis of his own notions of the laws of nature.

But in economics the situation is different. Whenever questions arise that affect the existing distribution of wealth, or the prevailing notions of property, the careful student will soon find that his thinking is affected by assumptions and conclusions that have come from his previous environment. Unusual care and self mastery are required to divest oneself of these prejudices, and to deal objectively with the facts and forces studied, especially if the conclusions about them seem to run counter to those which we have previously held. Few subjects, however, afford a more fruitful field for the exercise of control over our processes of thought and for the development of independence in our thinking. Herein lies much of the educational value of the subject as a part of a student's program in college.

When economics is well presented, it will not only call for as high grade mental powers to master it, as are required by the older subjects in the college curriculum, but its educational importance will be equally significant. The ideal that should guide those presenting the subject should be to explain the economic phase of human experience and to discover and promulgate the principles that have been found to be useful as a means of accomplishing this end. The only excuse for presenting another text in this field is the hope that it may aid in this endeavor, and thus strengthen economics as a part of the college curriculum.

It would be rash to assume that there was much that is new in this volume. In its preparation I am deeply indebted to a long line of outstanding names who have made economics a science, but to acknowledge them all would be a difficult task. Many ideas have been in the process of formulation during my more than twenty years of teaching experience, and to trace all of these to their source would be next to impossible. I have given acknowledgment in the body of the text to the more evident and positive influence of an author. As is true with every teacher, I owe much to the many alert minds who, by putting puzzling questions in the class room during these years, have caused me to reflect and to search for adequate answers. Finally, I have had many suggestions and valuable criticisms from my present and former colleagues, among whom I must mention Professors Ernest H. Hahne, Vanderveer Custis, Elmo P. Hohman, Fred D. Fagg Jr., and Ralph C. Epstein; in addition, I am deeply indebted to Professor Ira B. Cross of the University

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NORTHWESTERN UNIVERSITY,
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