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**THE ECONOMICS
OF EVERYDAY LIFE**

CAMBRIDGE UNIVERSITY PRESS

C. F. CLAY, MANAGER

LONDON : FETTER LANE, E.C. 4



NEW YORK : THE MACMILLAN CO.

BOMBAY

CALCUTTA } MACMILLAN AND CO., LTD.

MADRAS }

**TORONTO : THE MACMILLAN CO. OF
CANADA, LTD.**

TOKYO : MARUZEN-KABUSHIKI-KAISHA

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THE ECONOMICS OF EVERYDAY LIFE

A FIRST BOOK OF ECONOMIC STUDY

by

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PART II

Cambridge
at the University Press

1921

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INTRODUCTORY NOTE TO PART II

AS **The Economics of Everyday Life** has, for convenience of publication, been divided into two parts, it seems advisable to begin Part II by indicating how much of our subject has already been dealt with and how much of it remains to be treated in the pages which follow.

The whole work aims at being an explanation of the economic relation which exists between **wants, efforts and satisfaction**. It has been shown in Part I

- (1) that man's wants are the foundation of all economic life and activity and that in a primitive condition of society, his wants would for the most part be satisfied by the results of his *direct* effort;
- (2) that as society develops and civilization advances economic life becomes more complicated and the causes and effects of economic effort more difficult to trace;
- (3) that under modern conditions men satisfy almost all their wants *indirectly* by producing what other people need and by exchanging their own commodities and services for those of others;
- (4) that the development of exchange gives rise to the use of money and credit;
- (5) that the result of a man's effort is as a rule judged by the income it brings him in and that this income is measured in terms of money.

Part I in short has been devoted to the consideration of **effort**, of **exchange** and of **income**. It remains therefore to consider in **Part II** how the income thus obtained is applied to the **satisfaction** of human wants.

Part II will also include a short account of

- (a) **The economic wants of the State** and how they are supplied.
- (b) The aims and methods of various forms of association such as **Trade Unions** and **Co-operative Societies**, showing how they affect the standard of efficiency and the standard of living.

These are introduced because of the very direct bearing they have upon the subject of income, and because a book dealing with the Economics of Everyday Life would be very incomplete if it did not contain some treatment of two very prominent features of the economic life going on around us :

viz. the necessity of paying rates and taxes and the joining together of those having common economic interests into associations for the furtherance of those interests.

T. H. P.

OXFORD.

July, 1921.

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BOOK V

SPENDING THE INCOME

CHAP. I. Effort and Satisfaction. (p. 1.)

Income the connecting link between *Effort* and *Satisfaction*. Economic use of the term *Consumption*. The relation between effort and wants. *Direct* and *indirect* satisfaction of wants. Producers and Consumers. Satisfaction as limited by *Output*. The *National Dividend*.

II. Wants and their classification. (p. 13.)

Distinction between *wants* in the economic sense and mere *desires*. The *satisfaction* of wants considered with reference to

- (a) the *urgency* of the wants,
- (b) the *attractiveness* of the things desired,
- (c) the *durability* of the satisfaction.

Every want cannot be satisfied, so wants may be said to be *competitive*. Wants are usually classified as *Necessaries*, *Comforts*, *Luxuries*. Objections to this classification. An attempt to define the terms. Order of consumption is individual. The *Standard of Living*—a term generally understood though difficult to define. Social importance of the Standard of Living,

III. The Measurement of Wants. (p. 23.)

Wants can only be measured *indirectly*, i.e. by effort or sacrifice that would be made to satisfy them. Capacity to satisfy wants is called *Utility*. The *Law of Diminishing Utility*. *Marginal Utility*. *Consumer's surplus*. The Marginal Utility of money. *Economic expenditure* involves distributing the Income in such a way as to secure greatest possible amount of satisfaction. The Family Budget—attempt to formulate some general rules as to expenditure.

IV. Economic Aspects of Spending. (p. 34.)

Though some wants may be satisfied by direct effect, as a rule it is true to say that satisfaction of wants comes through *spending*. *Shops* provide opportunities for buying and selling and at the same time stimulate demand through the display of goods. In earlier times people living in the country relied largely on *itinerant vendors*, though much of their purchasing was done at periodical *markets* and *fairs*.

The satisfaction obtained through spending depends mainly on

- (a) the *method* of spending,
- (b) the *prices* of goods and services.

The *general price level* is the index of the purchasing power of money. It is the average of prevailing prices, and hence is influenced by the same forces as act on the prices of individual commodities. These forces may be examined under the headings of Demand and Supply.

The general price level is indicated by an *Index Number*.

V. Saving and Spending. (p. 47.)

A part only of the income is available for spending. Expenditure is (a) *personal*, (b) *social*. Social includes *Charity* and *Taxation*, personal includes *spending* and *saving*.

Saving = turning wealth into capital and hence providing for future wants.

Spending = using wealth for satisfaction of present wants.

Saving may arise from (1) duty, (2) prudence, (3) economic advantage. Widely different views are held on subject of saving. Economic forces said to adjust the balance between spending and saving. There is special need for saving after a great war.

VI. The Social side of Spending. (p. 54.)

The community is affected by an individual's use of income. There is difference of opinion as to how far government should control expenditure. In earlier times spending was sometimes regulated by *sumptuary laws*. During the war it was necessary to ration some articles, and to restrict or even prohibit the use of others.

On the social side spending may be considered as it affects (a) the producers, (b) other consumers.

The problems connected with (a) *luxuries*, (b) *waste* have also a social side and must not be looked at merely from the point of view of the individual. Bastiat's story of the *Broken Pane* shows very clearly the fallacy of the assertion that "destruction of property is good for trade."

BOOK VI

THE ECONOMIC LIFE OF THE STATE

VII. The wants of the State. (p. 67.)

The State has expenditure to meet and therefore must have an income. A comparison may be drawn between the economic life of the *State* and that of the *Individual citizen*. In so far as the wants of the State are satisfied by taxation, the spending power of the individual is diminished by Government expenditure. The wants of the State arise out of its functions and these functions have in recent years been greatly extended, leading to greatly increased expenditure. In connection with the wants of the State a distinction may be drawn between

- (1) Central and Local expenditure.
- (2) Productive and Unproductive expenditure.

VIII. The Income of the State. (p. 74.)

The State may derive its income from *taxation* or from *quasi-private sources*. In the United Kingdom the latter are unimportant. Taxation is *direct* or *indirect*, the distinction being one of incidence. The *incidence* of a tax should not be confused with its *effects*. The individual's share of taxation is a question of distributing the burden. Adam Smith's four canons of taxation. The first principle of distribution is *justice*. How this is applied in regard to Income Tax and Death Duties. *Productivity* and *Elasticity* are desirable qualities in a tax. *Rates* and *Taxes* compared. Great increase of Local Expenditure.

BOOK VII

ASSOCIATION AND CO-OPERATION

IX. Trade Unions. (p. 87.)

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X. The Co-operative Store. (p. 98.)

The Co-operative Store an Association of Consumers. The first really successful store that of the *Rochdale Society of Equitable Pioneers*, founded 1844. History of the Rochdale Store. Objects and methods of Co-operative Distributing Societies. The *Co-operative Wholesale Society* and its relation to the Retail Store.

CONCLUSION. Brief survey of the ground covered by the *Economics of Everyday Life*. *Economic Interdependence* emphasized by the Great War and its consequences.

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CAMBRIDGE : PRINTED BY
J. B. PEACE, M.A.,
AT THE UNIVERSITY PRESS