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EDITED BY RICHARD T. ELY

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OUTLINES OF ECONOMICS

(FOURTH REVISED EDITION)

BY

RICHARD T. ELY

PROFESSOR OF POLITICAL ECONOMY IN THE UNIVERSITY OF WISCONSIN
DIRECTOR OF THE INSTITUTE FOR RESEARCH IN LAND ECONOMICS
AND PUBLIC UTILITIES

THOMAS S. ADAMS

PROFESSOR OF POLITICAL ECONOMY IN YALE UNIVERSITY

MAX O. LORENZ

DIRECTOR OF STATISTICS, INTERSTATE COMMERCE COMMISSION

ALLYN A. YOUNG

PROFESSOR OF ECONOMICS IN HARVARD UNIVERSITY

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PREFACE

THE first edition of the *Outlines of Economics*, written by Professor Ely, was published in 1893. Four persons coöperated in preparing the revised and enlarged editions which appeared in 1908 and 1916. The present edition, though no larger than its predecessor, is the product of another thoroughgoing revision, and embodies substantial changes.

Few pages remain wholly unaltered. Many of the changes merely have the purpose of attaining increased precision and lucidity of statement. Others reflect the revolutionary economic changes of the last seven years. Giving their due importance to these changes has involved much more than merely bringing the book "up to date." The World War not only created new economic problems: it gave a new significance and a new distribution of emphasis to old problems.

To make room for new material many small excisions have been made here and there, the lists of questions formerly appended to the several chapters have been omitted, and the chapter on Insurance has been dropped. The discussion of business cycles has been considerably expanded and has been made into a separate chapter. Even more noticeably than before, therefore, the book is made up of fairly full discussions of the fundamental subjects of value and distribution, money and banking, and public finance, together with more summary treatments of a group of other topics. But, as before, we have tried to avoid any artificial separation of "theory" and "practical problems," and we have taken pains to retain the general organization and especially the general point of view of the earlier editions.

The chapter on Profits has been pretty thoroughly rewritten, the chapter on Interest has been simplified and otherwise altered,

and there are substantial changes in the second of the two chapters on Value and Price. Much new material will be found in the discussions of taxation, money and prices, international trade, transportation, agricultural problems, socialism, and other topics.

We are again indebted to many teachers of economics for helpful criticisms and suggestions.

THE AUTHORS.

SEPTEMBER, 1923.

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APPENDIX A

THE DEVELOPMENT OF ECONOMIC THOUGHT

Economic Ideas in the Ancient World. — The impression is frequently given that there were no writings on economics before Adam Smith. This impression is erroneous, and derives its plausibility from the fact that before Adam Smith economic subjects were treated either disjointedly and in a monographic way, or else in connection with ethics and political philosophy. But in treating economics in connection with ethics and politics, the older writers were merely following an almost inevitable method of dealing with economic problems. Indeed, if we are to derive the utmost possible benefit from this brief survey of the development of economic thought, it is necessary to begin many centuries before Adam Smith, with the Greeks.

The Greeks. — The three writers among the Greeks most interesting to the economist are Plato, Aristotle, and Xenophon. Both Xenophon and Aristotle (or, more probably, some unknown disciple of Aristotle) have treatises upon the specific subject of Economics, but these are devoted principally to domestic economy, or the management of the household; and the more important economic ideas of the Greek writers are derived from their works which deal primarily with political and ethical subjects.

Plato describes a utopia in his *Republic*. His aim was to picture an ideal society in which the ills of society were to be corrected by a communistic State, and he included a communism even of wives and children, going farther than modern communists. The communism of Plato admitted, strange as it may seem, slavery, on which his social superstructure indeed rested as a base. The *Laws* of Plato is a more practical work. It aims to present not the best possible state, but a more practicable one, and deals to a greater extent with existing institutions.

Aristotle's principal work for us is the *Politics*, and it is indeed one of the most remarkable books in the world's history. Its influence is strongly felt today, for it was carefully studied by theologians of the Middle Ages, and through them entered into the thought and life of their time; and the thought and life of their time can be seen by the careful student to have entered in a thousand ways into the institutions of the twentieth century.

While Plato tacitly accepted slavery, Aristotle actively defended the institution of slavery, describing the slave as an "animated tool," and insisting that slave labor was necessary in order that the ruling classes might have the leisure for statecraft, art, and literature. Both Plato and Aristotle, also, fully appreciated the advantages of the division of labor, and understood, in consequence, that a certain amount of traffic and exchange is necessary. But both writers shared the common prejudice against trade and commerce; what one man gained in exchange, they thought, some other man lost; and to live by trade was in their eyes despicable. Aristotle, moreover, defended the institution of private property, and formulated ideas about money and its functions that still influence men's thinking about those subjects, but he condemned interest taking because, as he expressed it, money is barren.

Perhaps the most characteristic quality of Greek economic thought, speaking generally, is the thorough subordination of economic to ethical and political considerations. The object of life, in their view, was self-knowledge or self-realization, not the acquisition of riches, and they refused to regard wealth as an object of fundamental importance to either the individual or the State. Plato, indeed, in certain parts of his writings, defends the ascetic idea that human wants are to be satisfied, not by the improvement of productive processes, but by the repression of the wants themselves.

The Romans. — While the economic institutions of the Romans and the manifestations of their character in their economic life will repay investigation, they were not remarkable for independent thought. Their economic ideas, like their philosophical doctrines, were borrowed from the Greeks, and show the same general characteristics which the ideas of Plato and Aristotle do. Commerce and trade were held in contempt, particularly when carried on in a small way. Interest taking was by some thought to be "as bad as murder." Agriculture, on the other hand, was esteemed to be worthy of the noblest citizens, and a "return to the soil" in later Roman times was frequently recommended as a cure for the prevailing degeneracy. Pliny said the great estates, the *latifundia*, together with slave labor and the destruction of the small independent farmer, caused the downfall of Rome. Among other agricultural problems discussed by the Romans were those of intensive versus extensive culture, and slave versus free labor.

The jurists are, however, the most important of all. Whatever may be its imperfections, the Roman law, the *corpus juris civilis*, is the most remarkable legal system the world has ever seen and for training in careful and accurate statement is unsurpassed. As a training for economic studies, Roman law is a valuable branch of learning. It gives us also invaluable information about the economic institutions of Rome.

Christianity. — To the economic thought of the time Christianity brought the revolutionary ideas of the dignity of toil and the equality of men before God. The philosophy of the Stoics had brought analogous ideas to the attention of the restricted intellectual world of the day, but Christianity popularized those ideas. The clergy were encouraged to earn their livelihood by manual labor, and laymen were exhorted to free their slaves as soon as they had become Christians. With respect to money and trade, however, the effect of Christianity was to strengthen and impress the teachings of Aristotle.

The Middle Ages. — As the power of the Church increased, its economic ideas found more formal expression in the treatises of the schoolmen and medieval theologians who expounded the church or canon law. Indeed, in the *corpus juris canonici* we have a definite system of economic thought which, while it was largely theoretical and intended originally for the ecclesiastical courts, came in time to be widely applied in secular affairs through the power of the confessional, the pulpit, and the wide jurisdiction of the ecclesiastical courts.

The doctrines of the canonists were based, in part, upon biblical injunctions against usury and the pursuit of wealth. The early Christian fathers frequently went so far as to condemn private property and set up the ideal of communism among the faithful. But this was only an ideal, and private property was early recognized as a necessary evil resulting from the fall of man. This ideal, however, was powerful enough to keep alive the doctrine that the maintenance of the poor was not a matter of philanthropy, but a binding obligation, in the words of Thomas Aquinas, the most distinguished canonist, a *debitum legale*.

Following the philosophers of Greece and Rome, and in sympathy with the scriptural attitude toward wealth, trade and commerce were regarded as greatly inferior to agriculture and handiwork as a source of livelihood. It was still believed that what the seller made by trade the buyer necessarily lost. As commerce developed, however, trade had to be recognized by the Church. In doing so, the canon writers formulated the doctrine of *justum pretium*, that every commodity has a *just price*, or value, which it is sinful for the seller to exceed. The modern trades-union doctrine of a *fair wage*, and the decisions of our courts concerning reasonable charges for gas, railway services, etc., illustrate the permanent necessity of ethical ideas of this sort.

The canonists condemned usury, which originally signified any loan interest, and not necessarily excessive interest. Their argument against interest was based upon scriptural strictures against usury, and upon Aristotle's argument that money is barren. Interest taking by the clergy had been prohibited as early as the fourth century; but in 1311, at the Council of Vienna, interest was prohibited "absolutely and universally," regardless of the civil law; and by the middle of the

fourteenth century, the prohibition of interest had, in many places, been incorporated into the civil law. Little by little, however, the Church was forced to change its attitude, and in the middle of the sixteenth century (1545) a statute was passed in England legalizing an annual interest rate not in excess of 10 per cent. By this time the teachings of the canonists were fast giving way to the doctrines of mercantilism.

Economic Ideas in Modern Times. — Before the close of the sixteenth century, the temporal power of the Church had been undermined by the development of the great modern monarchies, and in economic thought religious considerations were replaced by political necessities. The problem of the Church — the universal establishment of the Kingdom of God upon earth — gave way to a newer problem — the maintenance and aggrandizement of rival states. The latter were in pressing need of ready money with which to build navies and support armies. How to increase public revenue and national wealth became the absorbing questions of the time.

Mercantilism. — The mercantile system, also called Colbertism, restrictive system, and commercial system, obtained from the early part of the sixteenth century until late in the eighteenth century, and its influence is still felt. Mercantilism is not, strictly speaking, the product of a school of political economists, but rather the name given to the economic policy of statesmen which prevailed during the period and to the detached views of writers who explained or extolled the mercantile system. Most prominent among the statesmen who were mercantilists may be named Colbert, of France, Frederick the Great, of Prussia, and Cromwell, of England. Serra, an Italian, early in the seventeenth century presented a moderate and systematic statement of their views in a work entitled *A Brief Treatise on Causes which make Gold and Silver abound where there are no Mines*. Thomas Mun, in England, a generation later, wrote a valuable treatise from the standpoint of the mercantilists, called *England's Treasure by Foreign Trade: or the Balance of our Trade the Rule of our Treasure*, while Sir James Steuart's *Inquiries into the Principles of Political Economy*, published in 1767, may be regarded as closing the development of the theory of mercantilism.

The principal characteristics of mercantilism — the efforts to increase the stock of precious metals within the country, to maintain a favorable balance of trade, to increase the population and foster manufactures, if necessary at the expense of agriculture — have been described elsewhere, and need not be repeated at this point. In attempting to apply these theories, however, the statesmen of this epoch instinctively turned to that instrument — the law — with whose use they were most familiar, and statutory restrictions were multiplied until mercantilism in one

sense became practically synonymous with governmental interference. Toward the end of the eighteenth century, however, the commercial position of England, for example, became so strong that many of her industries found themselves crippled and confined by the very laws which had protected their infancy, and a reaction against mercantilism set in. The reaction, naturally, took the form of a movement in favor of agriculture and against governmental interference in economic and industrial affairs. In obedience to the needs of a new epoch, political economy lent itself to a propaganda in support of the doctrine of industrial liberty.

The Physiocrats.—The reaction against mercantilism found its first thorough and scientific expression at the hands of the French physiocrats. Quesnay, a physician, Gournay, a merchant and administrator, and Turgot,¹ the statesman, are their three principal authors. Politically, the physiocrats taught the doctrine of natural laws and rights, and loudly proclaimed the maxim of *laissez-faire*, that is, that the government should not interfere with private enterprise. Economically, they exalted the importance of agriculture, and maintained that manufactures and commerce, which merely change the form or position of raw materials, are barren and unproductive (though useful when subordinated to agriculture); but that agriculture alone yields a net surplus—*produit net*—over and above the expenses of production.

Many of the other doctrines of the physiocrats follow logically from the primacy they accorded to agriculture. Holding that agriculture is the sole ultimate source of wealth, they maintained that the revenue of the State should be raised by a single direct tax—the *impôt unique*—levied upon land. All taxes must, they thought, in the end come out of land rent anyway; and it was better that the landlord should pay them at once instead of waiting until they had passed through five or six hands and various profits had added to their amount. Naturally the physiocrats were ardent champions of free trade. They encouraged also the consumption of agricultural products, “in order that the *produit net* might be increased,” and were generous champions of the importance and rights of the downtrodden peasantry. *Pauvres paysans, pauvre royaume; pauvre royaume, pauvre roi*, was the borrowed motto of Quesnay’s *Tableau Economique*, the most important treatise of the physiocratic school.

Adam Smith.—In 1776 Adam Smith published his *Inquiry into the Nature and Causes of the Wealth of Nations*, the most influential economic treatise ever written. “The life of almost everyone in England, perhaps of everyone,” said Bagehot, “is different and better in con-

¹ Turgot did not count himself a member of the economic sect or school which gave their views the name of “physiocracy,” but his economic doctrines are very much like theirs.

sequence of it." His writings are in some respects similar to those of the physiocrats, but in large measure independent, and further developed and modified by his Scotch training and habit of mind. We find in Adam Smith the doctrines of free trade, non-interference, and natural laws, yet all stated more guardedly. Although he does not regard agriculture as exclusively productive, he does show a partiality for agriculture, for in this branch of production, he says, nature labors along with man. He emphasized the importance of permitting each individual to follow his own self-interest as a means of promoting national prosperity, but he was not unmindful of the existence of altruistic motives in mankind. He accords full recognition to the motives of sympathy and kindness in his *Theory of Moral Sentiments*. But the net result of Smith's teaching was to strengthen and emphasize the *laissez-faire* trend of economic thought in his time. "Two conceptions," said Arnold Toynbee, "are woven into every argument of the *Wealth of Nations*, the belief in the supreme value of individual liberty, and a conviction that man's self-love is God's providence, that the individual in pursuing his own interest is promoting the welfare of all." In its method, the *Wealth of Nations* remains an admirable example, uniting shrewd analysis with a masterly command of economic facts.

Economic Thought in the Nineteenth Century.—*The Classical School.*—The economic philosophy which prevailed during the first half of the nineteenth century is variously designated as the classical, Ricardian, English, or orthodox school. The earlier authors of this period were Jeremy Bentham (1748–1832), Thomas Robert Malthus (1766–1834), David Ricardo (1772–1823), James Mill (1773–1836), and John Ramsay McCulloch (1779–1864). In all of these writers we find the utilitarian philosophy, a deductive method, and the feeling that the outlook for the mass of the laborers was not a hopeful one.

Bentham's great work was the formulation and propaganda of the utilitarian ethics, with its famous first principle or goal of social action — the greatest happiness of the greatest number.

Malthus's principal contribution, contained in his celebrated work *The Theory of Population*, has already been discussed. His doctrine of population contributed more than any other single thing to make the political economy of the classical school harsh and gloomy. It seemed to say that although wages were low they could be no higher, because, if by some fortunate chance wages increased, population was sure to multiply until the wage was forced back to the old level. Poor relief and trades-union activities were both useless. The woe of the poor was due to their own lack of foresight, and could be removed by the poor alone. It was taught "that he who brought children into the world without adequate provision for them should be left to the punishment

of nature." The responsibility of poverty was thus thrust upon the poor themselves; the rich were soothed with the assurance that they were not primarily responsible for the condition of affairs. Malthus himself, however, did not frame his doctrine in so remorseless a way. He recognized the importance of what he called "preventive checks" to the increase of the population. Malthus brought the results of elaborate historical and statistical investigations to the support of his doctrines.

Ricardo was perhaps the first economist who adequately emphasized the important problem of the distribution of wealth. The backbone of his distributive system was the Malthusian law of population. Ricardo believed that as population increased, society would be forced to resort to poorer and poorer soils in order to obtain food; and as this took place an increasing share of the product of industry would go to the landlord in the shape of economic rent. The division of the remaining product between labor and capital, in Ricardo's view, was determined largely by the standard of living; that is to say, the laborer would receive enough to purchase the necessaries and conveniences required to support him and his family in their customary style of living, while the residue would go to capital in the form of interest and profits. Profits were thus the "leavings of wages. With the passage of time," and the settlement of a country, then, Ricardo's theory of distribution taught that rent would absorb a larger and a larger share of the product, wages a constant or slowly increasing amount, while profits would dwindle both absolutely and relatively.

Ricardo's principal work was his *Principles of Political Economy and Taxation*. It was published in 1817, and in it Ricardo elaborates, although he did not originate, the usually received doctrine of rent, which, modified and developed, is the one presented in this book. His ideas in general have a markedly pessimistic tinge. Rent, he said, is due to the niggardliness, not to the bounty, of nature; and his theory of distribution emphasized the natural diversity of interest between wage receivers and profit makers, and the antagonism between the interests of landowners and all other classes of society. He made contributions of lasting importance to our knowledge of monetary phenomena and of international trade. Ricardo is remarkable for his power in the use of the abstract deductive method, and it is noteworthy that this distinction should attach, not to a professional scholar, but to one of the most successful brokers of his day.

John Stuart Mill, who lived from 1806-1873, closed one period in the development of economic science and began another in England. He started, under the influence of his father, James Mill, as a thorough-going follower of Ricardo, preserved the old doctrines of value, rent, wages, and profits, and advocated *laissez-faire* as a general principle

of political expediency. But in his later years Mill advocated the diffusion of property through the regulation and taxation of inheritances, indorsed the appropriation by the State of the future unearned increment of land, and emphasized an important distinction between the production and distribution of wealth. "The laws and conditions of the production of wealth," he said, "partake of the nature of physical truths. There is nothing optional or arbitrary in them. . . . It is not so with the distribution of wealth. That is a matter of human institutions solely. The things once there, mankind, individually or collectively, can do with them as they like. . . . The distribution of wealth, therefore, depends upon the laws and customs of society. The rules by which it is determined are what the opinions and feelings of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so choose."

The old and the new doctrines found in Mill's *Principles of Political Economy* do not always harmonize, however, and the result is a work one of the most valuable and influential of modern times, yet full of inconsistencies. Nevertheless, Mill will always be regarded as the culmination of the school usually known as the English deductive or classical school. Most of the work of the school was deductive; that is, they reasoned by singling out a few main facts of the external physical world and human nature familiar to all, and showing how men must act under the guidance of these laws. None of these economists pretended that the few laws which they considered were the whole of human nature, though they have sometimes been interpreted as if they did so. Walter Bagehot said of English political economy: "It is an analysis of that world so familiar to many Englishmen, — the 'great commerce' by which England has become rich. . . . Dealing with matters of 'business,' it assumes that man is actuated only by motives of business. . . . And this deceives many excellent people, for from deficient education they have very indistinct ideas what an abstract science is." Despite these limitations, the largest contributions that have been made to economic science came from the English classical school.

Socialism. — Mill's change of heart resulted partly from his study of the socialist writers, who voiced the earliest and most thoroughgoing protest against the views of the classical economists. Modern socialistic doctrine may conveniently be dated from William Godwin's *Inquiry concerning Political Justice* (1793), although Godwin himself was more of an anarchist than a socialist. Godwin and the early French idealists and communists, — Cabet, Saint-Simon, Fourier, etc., — began the attack on the ethical and political views of the orthodox political economy. Later the attack was continued in a somewhat more practical and realistic way by writers such as William Thompson and Robert Owen in England, Bazard and Louis Blanc in France, Rodbertus,

Lasalle, and Marx in Germany. The foundation of classical political economy was *laissez-faire* and its doctrinal structure was built around the system of private capitalistic enterprise. Socialism in essence was a thorough protest against *laissez-faire* and the private ownership of property.

In recent times, largely under the influence of Karl Marx, socialism has acquired a distinctive economic theory of its own, built in part, however, upon the foundations laid by Smith and Ricardo. Marx, in his work on *Capital*, was in most ways more abstract, deductive, and pessimistic than any of the classical school. At bottom his whole theory was directed against those fundamental institutions of our social order which the classical economists took for granted. Marx's doctrines are built in part upon a materialistic or economic interpretation of history, and the whole tendency of the modern scientific socialists has been to emphasize the evolutionary standpoint.

The Sociologists. — Among other influences which changed Mill's conception of economic science, and induced him to temper the rigor of his early teachings, were the works of Auguste Comte (1798-1857), the founder of modern sociology. Comte was especially severe in his criticism of the methods of the classical economists. He denied, in particular, that it is possible to develop a helpful science of economics distinct from history, ethics, and politics. Not only must these fields, he maintained, be cultivated in common, but the work must be done by inductive, as distinct from deductive, methods. Society, he held, is characterized by ordered change or evolution. The capitalistic stage, with which classical economics concerned itself, must be studied in connection with the past and the future. Economics, he particularly insisted, cannot be divorced from history.

The Historical School. — This particular line of thought was independently developed in Germany in the middle of the nineteenth century by three young Germans, Roscher, Knies, and Hildebrand, who vigorously assailed the doctrines of the classical school. They went back of the old premises — self-interest, private property, demand and supply — and tried to trace the historical development of economic life, coming to the conclusion that economic policies were not absolutely, but only relatively, right. They denied that economic science can discover laws which hold true for all times and all places. They emphasized the importance of inductive methods, and of the study of legal institutions, custom, and ethics in their relation to economic life. Most members of the school entertained a strong sympathy for policies of reform. Gustav Schmoller, the leader of the later or "younger" historical school, put especial stress upon careful, painstaking, detailed investigations of different phases of the economic life of the past and the present as a necessary preliminary to the construction of a real economic science.

Owing to the political ferment in Germany during the infancy of the historical school and the formation of the German Empire when this reaction against the classical economists was at its height, German political economy of the last half of the nineteenth century was impregnated with a striking nationalistic spirit which separated it even further from the cosmopolitanism of the English writers. The creation of a new state is almost invariably attended by the enactment of restrictive legislation, looking to the amalgamation of the diverse elements incorporated into the new state and the protection of its industries from foreign competition. *Laissez-faire*, under these conditions, is particularly difficult to maintain. The new national economy of Germany seemed to voice these political necessities. Like the classical economics of England, it was a creature of its own time and its own environment.

The Economic Optimists. — The Malthusian doctrine of population is tinged with pessimism, and so also is the Ricardian theory of distribution. In opposition to English economists, there was developed elsewhere, about the middle of the nineteenth century, a scheme of thoroughgoing economic optimism, and this was presented in a more unqualified way by Frédéric Bastiat (1801-1850), than by any one else. Bastiat was an ardent agitator for free trade and a popular pleader for the existing order against the attacks of socialists and anarchists; he was the author of numerous pamphlets, and at the time of his death was engaged on a systematic treatise entitled *Economic Harmonies*, of which the first volume only was completed. According to Bastiat, there is no economic rent. The landowner does not receive an unearned income. What we call rent is simply a return for past investments of capital. The profits on capital also, according to him, are simply a return on past labor, and relatively to wages, a diminishing return. For it is a peculiarity of labor stored up in those products which we call capital, that it continually diminishes in value as compared with present labor. In other words, wages are continually gaining relatively as compared with the profits of capital. Capital may gain absolutely on account of the increase in the amount of capital. Wages gain both absolutely and relatively. Value gives us the ratio of exchange between services. Economic gain is in proportion to economic service except that labor is progressively a gainer on account of the fact that man's present services (as seen in labor) increase in value as compared with man's past services as accumulated in capital.

As Bastiat denied the existence of pure economic rent in the Ricardian sense, he also denied the Malthusian theory of population, holding that no proof could be adduced of a tendency of population to press upon the means of subsistence. The evils that we experience come, according to Bastiat, from man's interference with natural harmonies. Nature

works things out well, and this is the best of possible worlds if we could only let nature have her way.

Henry C. Carey, the American contemporary of Bastiat, held similar doctrines, and was apparently the more original man. If either one borrowed from the other, it must have been Bastiat. Probably neither one was guilty of any conscious plagiarism.

The writings of the optimists had a considerable influence for a time in Germany, where they were developed and applied with uncompromising logic by men like Prince-Smith, Faucher, and a considerable number of others who were influential in the press and practical affairs rather than academic life. In the United States these writings have had a great deal of influence upon a number of early writers, among whom we may mention especially the late Arthur Latham Perry, long professor in Williams College, and Edward Atkinson, a well-known statistician and writer.

Early American Economists.—The reaction against the English economists, it is interesting to note, began earlier in the United States than in England or Germany. In the early part of the nineteenth century, emphatic dissent from the English doctrines was voiced by a group of publicists, among whom may be mentioned Alexander Hamilton, Daniel Raymond, Matthew Carey, Hezekiah Niles, and Frederick List. Hamilton's work and views are well known; Niles and Matthew Carey were pamphleteers of considerable note in the first third of the nineteenth century; and List, who, in the view of some authorities, planted the seeds of the German historical school, unquestionably obtained some of his distinctive nationalistic views about political economy in the United States, and first formulated them in his *Outlines of American Political Economy*, published in 1827.¹

Daniel Raymond, however, of all the American writers noted, is the least known, and yet the author of the first American treatise on political economy in which a distinctively American system of economic thought is suggested. Raymond's first book, *Thoughts on Political Economy*, appeared in 1820; a second edition, under the title *Elements of Political Economy*, appeared in 1823, and the latter was reprinted with slight changes in 1836 and 1840. The essence of Raymond's system is found in his conception of wealth. Wealth, he maintained, is not an aggregate of exchange values but the opportunity to acquire the material comforts of life by labor. The English political economy, in Raymond's view, was a study of private as opposed to political or national economy. Raymond emphasized the distinction between individual and social wealth, and maintained that the laws of wealth

¹List returned to Germany and was there a forceful writer and agitator for German unity, and is identified rather with the history of economic thought of Germany than with that of the United States.

laid down by Adam Smith were untrue of a nation conceived as a unit. The interests of particular individuals, or particular classes, he argued, do not always coincide with the interests of the nation as a whole, and the latter, he concluded, will be best advanced by developing all the national powers to their widest possible extent. He was thus a warm advocate of protection as opposed to *laissez-faire*.

Raymond's views had so impressed Matthew Carey that he offered to support a chair of political economy at the University of Maryland if the University would permit Raymond to fill it. Matthew Carey's son, Henry C. Carey (1793-1879), by far the most influential of the early American economists, was in like manner probably influenced by the teachings of Raymond. Carey was an earnest champion of protection, an indefatigable critic of classical economic doctrines. He denied the truth of the Malthusian principle and the law of diminishing returns; objected to the Ricardian theory of rent; and maintained that the value of a commodity depends upon the cost of reproduction rather than the cost of production, as was, he thought, laid down in the classical theory of value. Carey entertained a concept of wealth very similar to that of Raymond, and in some parts of his work adopted methods of investigation which brought him in close touch with the sociologists and the German historical economists. The keystone of his economic system is the doctrine of association. The increasing mastery of man over nature, or the increase of wealth, Carey held to be dependent upon the increasing efficiency resulting from a compact, homogeneous population, in which agriculture and manufacture are conducted side by side, in which the home market idea is carried out in the most complete way, and in which, to be brief, the association of industrial and social units is most intense and intimate. The economic philosophy of Carey was inimical to free trade at every point.

The Austrian School. — The protests against the classical economists which we have been considering were directed largely against the scope they gave to economics and the methods they used. The Austrian economists represent a reaction not against their methods, but against some of their conclusions, and particularly against their theory of value. The great contribution of the Austrian school is the marginal utility theory of value, which has been most assiduously applied in economic analysis by a group of Austrian economists, among whom may be specially mentioned Menger, Wieser, Sax, and Böhm-Bawerk. But the marginal utility theory of value was advanced almost simultaneously, about 1871, by the English economist Jevons, the Austrian economist Menger, and the French economist Walras.¹

¹ In reality the marginal utility theory had been explained many years before this by a number of obscure writers whose ideas, however, never affected the main current of economic thought.

The Austrians have been a leading force in producing what is not inaptly termed a renaissance in theory. The classical theory put the emphasis upon supply or the conditions of supply, maintained that in the long run cost of production determines value, and found the ultimate measure and explanation of value in the pain and sacrifice of labor. The Austrians maintain that utility, the pleasure or satisfaction derived from consumption, is the ultimate cause and measure of value; they emphasize demand as the English economists emphasized supply; and hold that value determines cost of production and not the cost of production value. Capital, they conclude, receives its value from the finished product instead of giving value to that product. The work of this school has tended to put the consumer in the place primarily occupied by the capitalist as the center of discussion in economic theory and to emphasize a short-time rather than a "long-run" view of economic processes. The work of the Austrians has had a profound influence upon economic writing in the United States.

Present Condition of Economic Thought. — The net effect of all these protests against the classical English economists has been to introduce a welcome catholicity into the methods of economic investigation. The historical school emphasized the evolutionary standpoint and the necessity of minute investigation of the facts of industrial life, while the work of the Austrians operated to strengthen and explain the necessary place of deduction in economic analysis. Today the ordinary economist employs either method, or both, as the subject-matter demands, and the controversy about methods has become a thing of the past. With respect to the theory of value, neither supply nor demand, neither cost nor utility, neither the capitalist nor the consumer, is now said to exert a predominating influence in the determination of values. The Austrian school, it is now understood, supplied a needed corrective without revolutionizing the earlier theory of value. The Austrians themselves are seen to have been guilty of laying exaggerated emphasis upon the consumer's influence upon value and price, and there is reason to believe that their analysis is based in some degree upon a faulty psychology.

So, similarly, with respect to the scope of economics. Economics has never given itself to a complete study of politics or ethics. It considers ethical and political phenomena when these cannot be dissociated from economic phenomena, but insists, nevertheless, upon the separation of economics from ethics, politics, and sociology. We recognize that these fields are not wholly or clearly differentiated, but we recognize just as clearly that a division of labor is necessary if accurate results are to be achieved. Furthermore, this division of labor is showing itself progressively within the limits of economics itself, as it has shown itself in all growing sciences. Indeed, the present condition of economic

thought was so accurately predicted by W. S. Jevons, in 1876, that his words — written in the midst of the controversy among the adherents of the deductive, historical, mathematical, and sociological methods of investigation — may well be employed to picture the condition of the science of economics as it exists today :

“ As I have previously explained, the present chaotic state of economics arises from the confusing together of several branches of knowledge. Subdivision is the remedy. We must distinguish the empirical element from the abstract theory, from the applied theory, and from the more detailed art of finance and administration. Thus will arise various sciences, such as commercial statistics, the mathematical theory of economics, systematic and descriptive economics, economic sociology, and fiscal science. There may even be a kind of cross subdivision of the sciences; that is to say, there will be division into branches as regards the subject, and division according to the manner of treating the branch of the subject. The manner may be theoretical, empirical, historical, or practical; the subject may be capital and labor, currency, banking, taxation, land tenure, etc., — not to speak of the more fundamental division of the science as it treats of consumption, production, exchange, and distribution of wealth. In fact, the whole subject is so extensive, intricate, and diverse, that it is absurd to suppose it can be treated in any single book, or in any single manner.”¹

¹ Jevons, *Theory of Political Economy*, 3d ed., pp. xv, xvi.

APPENDIX B

SUGGESTIONS FOR STUDENTS AND TEACHERS

SOME teachers of economics rely chiefly upon classroom discussion of assignments in a textbook, supplemented, perhaps, by other reading requirements. Others make large use of lectures and of problems and brief reports assigned in connection with particular subjects discussed in the class. Some require the student to write one or more longer essays or themes on specific topics. In this book specific references have been appended to each chapter. The aim has been to list only books and papers that have value in themselves and that have a direct bearing upon the subject matter of the respective chapters. References to parallel discussions in other elementary textbooks have for the most part been avoided, the aim being to enable the student to extend his inquiries by reading more advanced and comprehensive treatments of particular problems.

There is no one "best way" of teaching economics, for the methods used must depend very largely upon the size of the classes and the maturity of the students. It has been the experience of the writers, however, that whatever the relative degree of emphasis put upon lectures, classroom discussions, and assigned problem work of different sorts, mastery by the student of one book on general economics, or at least of so much of it as treats of fundamental economic principles, is an essential part of every introductory course in the subject. When pressed for time, the teacher using this book may find it desirable to omit all of it save Book II, "Principles and Problems." When more time is available, it may be deemed wise to include discussions of certain subjects not treated in this volume. "The economic problems of municipalities," "the control of public utilities," "the elements of statistical method," "the problems of poor relief," "the general principles of market organization," "the economic aspects of risk-taking" (including insurance and speculation), are a few among many possible supplementary topics.

Valuable suggestions on the teaching of elementary economics will be found in various papers and discussions printed in the *Journal of Political Economy*, Vols. xvii-xxx (1909-1922). See also C. E. Persons, "Teaching the General Course in Economics," in *Quarterly Journal of Economics*, Vol. xxxi, and John Ise, "The Course in Elementary Economics,"

with discussion by others, in the *American Economic Review*, Vols. xii and xiii.

The problem of making an adequate amount of supplementary reading available to students in large classes has been made easier to solve by the publication of volumes of excerpts, designed for this particular use. (W. H. Hamilton, *Current Economic Problems*; L. C. Marshall, *Reading in Industrial Society*; L. C. Marshall, C. W. Wright, and J. A. Field, *Materials for the Study of Elementary Economics*; C. J. Bullock, *Selected Readings in Economics*; F. A. Fetter, *Source Book in Economics*.) Similar volumes have been made up of material on special economic problems. References to many of these will be found among the reading lists appended to the different chapters in this book.

General Works on Economics.—Other American textbooks on economics, of college grade, are: C. J. Bullock, *Introduction to the Study of Economics*; F. A. Fetter, *Principles of Economics*; Irving Fisher, *Elementary Principles of Economics*; H. R. Seager, *Introduction to Economics*; E. R. A. Seligman, *Principles of Economics*; F. M. Taylor, *Principles of Economics*; and J. R. Turner, *Introduction to Economics*. Larger in scope or more detailed in their treatment of the general principles of economics are H. J. Davenport, *Economics of Enterprise*; F. A. Fetter, *Economics* (2 vols.); A. T. Hadley, *Economics*; F. W. Taussig, *Principles of Economics* (2 vols.). F. A. Walker's *Political Economy* ("advanced course"), although presenting a somewhat antiquated view of economic principles, will be found still to possess much interest for the reader.

Among English books, Alfred Marshall's *Principles of Economics* occupies a peculiarly authoritative position. It is characterized by an unusually intimate grasp of the facts of modern economic life and by a rare degree of ability in critical analysis. It attempts to reconcile many of the modern developments in economic analysis with the fundamental tenets of the political economy of David Ricardo and John Stuart Mill. Marshall's *Principles* is difficult for any but the mature student, and his own attempt at an abridgment, his *Economics of Industry*, is distinctly inferior to the larger work. Two excellent books that are based in large measure on Marshall's *Principles* are S. J. Chapman, *Outlines of Political Economy*, and A. W. Flux, *Economic Principles*. The comprehensive English work of J. S. Nicholson (*Principles of Political Economy*, 3 vols.) is even more conservative in matters of economic theory than is Marshall's. Edwin Cannan's *Wealth* is a small manual with an original and suggestive point of view. One of the most notable recent English works is P. H. Wicksteed's *The Common Sense of Political Economy*. Henry Clay's *Economics*, a very readable book, is available in an American edition, prepared by E. E. Agger.

Special mention can be made of only a few of the more important

German and Austrian works on general economics. Adolf Wagner's *Grundlegung der politischen Oekonomie* (2 vols.) is characterized by great erudition and by systematic and painstaking classifications and definitions. It puts especial emphasis upon the general ethical and political aspects of economic problems. The *Allgemeine Volkswirtschaftslehre* of Gustav Schmoller (2 vols.) is characterized by the consistent use of the historical method, and by the extent to which psychology and ethnology as well as history are drawn upon to explain modern economic institutions. Wilhelm Lexis's *Allgemeine Volkswirtschaftslehre* is a smaller work, embodying a better exposition of fundamental economic principles than is found in most German treatises, and distinguished by a realistic account of economic processes and by a large measure of originality. The *Allgemeine Volkswirtschaftslehre* of Eugen von Phillipovich (2 vols.) contains a more systematic presentation of general economics than does any other work in the German language. It is distinctly catholic, or perhaps, eclectic, in its general theories. Robert Liefmann's *Grundsätze der Volkswirtschaftslehre* (2 vols.) is of somewhat less importance than the other works mentioned.

The *Traité théorique et pratique d'économie politique* (4 vols.) of Paul Leroy-Beaulieu may be taken as the best example of a rather dogmatic type of laissez-faire economics that still commands a large and influential following in France. Representative of a newer school of thought, more hospitable to various projects for constructive economic betterment, is the work of Charles Gide, whose two books on general economics are available in English translation (*Political Economy* and *Principles of Political Economy*). One of the best modern French works is Adolphe Landry's *Manuel d'économique*. Other books of high quality are H. Truchy's *Cours d'économie politique* and B. Nogaro's *Traité élémentaire d'économie politique*. C. Colson's *Cours d'économie politique* (6 vols.) is an important work.

In other European countries, especially in Italy, Holland, and the Scandinavian countries, there has been much economic writing of a high order. Attention may be called to the English translation of the excellent Dutch work of N. G. Pierson, *Principles of Economics* (2 vols.), to the French translation (*Manuel d'économie politique*) of a book (in Italian) by Vilfredo Pareto, which is possibly the most noteworthy of various modern works in which mathematical methods are used in economic analysis, and to the German translations of two important works by the Scandinavian scholars K. Wicksell (*Vorlesungen über Nationalökonomie*) and G. Cassel (*Theoretische Socialökonomie*).

Encyclopedias. — The most comprehensive encyclopedia of economics is the great *Handwörterbuch der Staatswissenschaften* (3d ed., 7 vols., 4th ed. in process of publication) edited by Conrad and others. A

smaller, but useful, German reference work is the *Wörterbuch der Volkswirtschaft* (3d ed., 2 vols.), edited by Elster. In French, the *Nouveau dictionnaire d'économie politique* (2 vols., with supplements), edited by Say and Chaillay, is already somewhat antiquated and represents a rather narrow point of view. For special fields there are the *Dictionnaire des finances* (2 vols.), edited by Say and Foyot, and the *Dictionnaire du commerce, de l'industrie, et de la banque* (2 vols.), edited by Guyot and Raffalovich. The English *Dictionary of Political Economy* (3 vols.), edited by Palgrave, is a standard reference work. There is no American dictionary or encyclopedia covering the whole field of economics. The *Encyclopædia of Social Reform*, edited by Bliss, is useful in its special field. Although published in the early eighties, some of the articles in Lalor's *Cyclopædia of Political Science, Political Economy, and United States History* (3 vols.) remain of value. The *Cyclopædia of American Government*, edited by McLaughlin and Hart, may be consulted on topics in public finance and related fields.

Periodicals. — Many of the most important contributions to economics appear in special periodicals devoted to the subject. In the United States there are the *Quarterly Journal of Economics*, the *Journal of Political Economy* (monthly), and the *American Economic Review* (the organ of the American Economic Association, quarterly). The *Political Science Quarterly*, the *Annals of the American Academy of Political and Social Science* (monthly), the *American Political Science Review* (quarterly), and the *American Journal of Sociology* (bi-monthly), frequently publish papers that are of importance for the student of economics. Limited to more specialized fields are the *Journal of the American Statistical Association*, the *Review of Economic Statistics*, the *American Labor Legislation Review*, the *Bulletin of the National Tax Association* (monthly), and the *Survey* (weekly, covering the field of charities and other organized movements for social betterment).

In England the principal economic periodicals are the *Economic Journal* (the quarterly organ of the Royal Economic Society), the *Journal of the Royal Statistical Society* (quarterly), and *Economica* (three numbers a year). The economic journals of the various countries of continental Europe, although of great value to the specialist, are too numerous to mention here.

The "trade journals" of different special industries and in the fields of banking and insurance are often useful to the special students in these fields. In particular the periodicals dealing with the general conditions of business and the money market are often indispensable. The *Commercial and Financial Chronicle* of New York (weekly) may be specially mentioned on account of the completeness and accuracy of its statistics of money market conditions. For London the *Economist* and the *Statist* occupy a similar position. The *Annual Financial Review*

contains convenient compilations of the more important statistics that have appeared in the *Commercial and Financial Chronicle* during the preceding year. Such annuals as the *Statesman's Year Book* (London), *Whitaker's Almanac* (London), and the *World Almanac* (New York), are often useful for reference purposes.

Reference to the enormous output of articles on economic subjects in periodicals of a more general or popular type is now easy by using the "cumulative indexes" and "readers' guides" that will be found in most colleges and public libraries. These articles are, of course, of very uneven quality and must be used discriminately. Most of the more important current articles on economic topics are listed, with many brief abstracts or appraisals, in the successive numbers of the *American Economic Review*.

Books in Special Fields. — The references given in connection with the different chapters in this volume are sufficient to enable one to make a fairly thorough study of the different subjects treated in these chapters. Many of the books referred to contain more elaborate bibliographies on their special subjects. The student should, of course, be familiar with the use of the card catalogue of a modern library. In using such a catalogue it should be remembered that the library classification of books by subjects is very rarely entirely satisfactory, so that one should exercise one's ingenuity in searching under different subjects. The Library of Congress has printed in pamphlet form lists of books and articles on various practical economic problems, and is often able to furnish, at a small price, shorter typewritten lists of references on other subjects. Short annotated bibliographies are issued by different state legislative libraries and municipal reference libraries. The bibliographies in the various economic encyclopedias, especially the *Handwörterbuch der Staatswissenschaften*, will often be found helpful. A very complete list of new books in various fields of economics is published quarterly in the *American Economic Review*.

Government Publications. — The student should early acquire some familiarity with the use of government documents as first-hand sources of information. Aside from statutes and the proceedings of legislative bodies these publications include: (1) annual reports of different administrative departments and bureaus; (2) reports of special investigations made by the permanent bureaus or by special commissions; (3) records of the hearings before legislative committees of inquiry. A record of the enormous output of the publications of the federal government is contained in the *Monthly Catalogue of Public Documents*, published by the Superintendent of Documents, Washington. This has an annual index, and a comprehensive *Document Catalogue* is also published for each Congressional period. The *Check List of Government Documents* is convenient to use in locating regular or routine docu-

ments published before 1910. The *Annotated Tables of and Consolidated Index to the Congressional Series of United States Public Documents* may also be used for the same purpose. Poore's *Descriptive Catalogue of the Government Publications of the United States, 1774-1881*, is useful in locating irregular or obscure publications of various sorts. In nearly every congressional district there is a public or college library which is an official depository for federal documents and has a nearly complete set of those published in recent years. Current documents may sometimes be obtained without charge from the departments or bureaus issuing them, or from the Representative or Senator from one's district or state. They can always be purchased at small prices from the Superintendent of Documents. The Superintendent of Documents issues small printed price lists of the publications in different special fields.

The Library of Congress publishes a *Monthly List of State Documents*. Bowker's *State Publications* (three parts) give a fairly complete list up to about 1900, and a full index to the economic materials in the documents of some of the larger states has been published by the Carnegie Institution. Municipal documents are often published in an unsystematic way, and there is no general index or list of either current or past municipal publications. The student should find it both practicable and instructive, however, to become acquainted with the published documents of the city in which he lives, or those of some large city in his state.

The British *Parliamentary Papers* contain a wealth of material on a wide range of economic topics. Much of this is listed in P. S. King & Son's *Catalogue of Parliamentary Papers, 1801-1900 (with Supplements, 1901-1910, 1911-1920)*. Lists of current publications are published by several London dealers. The more important ones are noted in the English economic journals. Among the government publications of other countries we can mention here only the valuable statistical year-books published by many nations and by a number of important cities. The *Statistisches Jahrbuch für das Deutsche Reich* is one of the best of these. The *Monthly Bulletin of Statistics*, issued by the League of Nations, gives a convenient summary of such current statistical information as has international significance.

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