

MASTERWORKS OF ECONOMICS

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MASTERWORKS
OF
Economics

DIGESTS OF 10 GREAT CLASSICS



Edited by
Leonard Dalton Abbott

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PREFACE BY THE EDITORS

THIS VOLUME is one of a series of books which will make available to the modern reader the key classics in each of the principal fields of knowledge.

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All these books have had a profound effect upon the thinking and activities of mankind. To know them is to partake of the world's great heritage of wisdom and achievement. Here, in the Masterworks Series, epoch-making ideas of past and present stand forth freshly and vividly—a modern presentation of the classics to the modern reader.

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L. D. A.

MASTERWORKS OF ECONOMICS

INTRODUCTION

THE PURPOSE of this volume is to make some of the masterpieces of economic literature easily accessible. The works presented are worthy of anyone's concentrated study. Viewed as efforts to analyze and to interpret the increasingly complex forms which economic life has assumed since the early seventeenth century, they are fascinating. Regarded as signposts pointing the way to the social future, they are perhaps even more intriguing. In each case the books are offered in digest form.

The word "economics" came into general usage about fifty years ago; the subject suggests an essentially modern department of learning. Some three hundred years ago, when scholars were investigating the production, distribution, and consumption of wealth, they began to use the term "political economy." This term goes back to ancient Greece, but the ancient world had only fitful foreshadowings of economic science.

In 1615 Antoine de Montchrétien, French dramatist, poet, and hardware manufacturer, published his *Treatise on Political Economy*, the first attempt in modern times to evaluate economic principles. It is little more than a mercantilistic pamphlet, and it was dedicated to Louis XIII and the queen mother Marie de Médicis. The period in which Montchrétien lived marked a time when medieval conditions were rapidly giving way to those of modern life. Nationalism was the order of the day. Each country was trying, by means of tariffs and strict regulations, to promote its own prosperity. The rise of chartered companies and the opening up of world markets had made it possible for manufacturers and traders to amass great fortunes. These fortunes were concentrated in bullion, or "treasure," and the notion was widespread that the precious metals, gold and silver, were the sole repositories of wealth.

Mercantilism, a national policy before it was an economic doctrine, gave formal expression to this idea and carried with it, as a kind of corollary, a "balance of trade" theory according to which each country endeavored to export more than it imported and to receive payment in bullion. Among the first writers on mercantilism was Edward Misselden,

a prominent English merchant of the early seventeenth century. One of its ablest exponents was another outstanding merchant, Thomas Mun, author of *England's Treasure by Foreign Trade*, published in 1664.

A powerful reaction against the tenets of mercantilism appeared in France among the physiocrats, or *économistes*, of the eighteenth century. In place of a nationalistic bias these French thinkers offered a cosmopolitan doctrine based on free trade and on competition. Against the mercantilistic conception of commerce they set the idea of agriculture. They taught that nature is the only source of wealth and that manufacturers, artificers, and merchants are "unproductive." They advocated a single tax on the net product (*produit net*) of land and proposed that industry and commerce be exempted from taxation.

The leading exponent of the physiocratic school was François Quesnay, court physician during the reign of Louis XV. His *Tableau économique*, published in 1768, attempts to show, by means of arithmetical formulas, how the products of agriculture would be distributed among the several classes of the community in a state of perfect liberty. To Quesnay's associate, Vincent de Gournay, is attributed the now proverbial phrase: *Laissez faire, laissez passer*. A third physiocratic writer, Turgot, finance minister of Louis XVI, wrote a book, *Reflections on the Formation and Distribution of Wealth*, published in 1766, in which he anticipated many of the doctrines that Adam Smith, a Scotsman, was to formulate in the *Wealth of Nations*.

Adam Smith's *Wealth of Nations* appeared in 1776. In a section of his book devoted to the analysis of systems of political economy, Smith takes up, first, the "principle of the mercantile system." He asserts that gold and silver "are to be bought for a certain price like all other commodities," and are therefore no more important than any other form of wealth. He goes on to pay a tribute to the "agricultural system" of M. Quesnay, whom he had met during a visit to France and whom he describes as "ingenious and profound." One feature in the physiocratic system he says he cannot accept—namely, the afore-mentioned doctrine that artificers, manufacturers, and merchants are unproductive. Apart from this feature he regards the system as "perhaps the nearest approximation to the truth that has yet been published upon the subject of political economy."

Like the physiocrats, with whom he had so much in common, Adam Smith was concerned with the "natural" laws of wealth. He believed in the beneficence of nature and he taught that all would be well with men if they knew how to grasp and to follow nature's laws. He recognized "an invisible hand" operating in human affairs, and he thought of this in terms of natural law. Few, if any, declarations of economic principle in any age have had more influence than Adam Smith's enunciation of the idea that every man, so long as he does not violate the laws of

justice, should be "left perfectly free to pursue his own interest in his own way, and to bring both his industry and capital into competition with those of any other man, or order of men."

This attitude made a strong appeal to the manufacturers and merchants of the time; it almost seemed to be giving to their acquisitive ambitions and activities a kind of sanctity. The weak point in Adam Smith's philosophy, according to his critics, lay in its failure to allow sufficiently for the selfish and predatory instincts of humanity. Smith himself drew up a bill of exceptions to the beneficent workings of natural liberty. He gave his approval to the act of navigation instituted by Oliver Cromwell, on the ground that it was necessary for the defense of the country. He also approved of the imposition of duties on imported produce to counter-balance taxes levied at home on domestic produce of the same kind. Smith stood on the threshold of an industrial revolution occasioned by the use of steam and the invention of machinery. A rapidly expanding capitalistic economy was soon to decree the exploitation of large numbers of men, women, and children, who were compelled to work for long hours under insanitary conditions. The question has arisen: Would Smith have favored social legislation mitigating the hardships introduced by the factory system? A strong vein of sympathy with the working class runs through the *Wealth of Nations*. "No society," says Smith, "can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves well fed, clothed, and lodged."

Adam Smith was optimistic in his outlook, but his optimism was not shared by Malthus, Ricardo, and others of the so-called classical school of economists who followed him. Malthus, indeed, prefaces his *Essay on the Principle of Population*, published in 1798, with the statement that his view of human life "has a melancholy hue"; and Ricardo expressed his fear that the "progressive" state of society in which he lived might degenerate into a "stationary" state in which population would no longer increase and capital would no longer accumulate.

It has not been sufficiently recognized, perhaps, that Malthus' attitude left little, if any, room for progress. His apprehensions regarding the growth of population darkened his entire horizon. According to Malthus, the relationships existing in his time between landlord and tenant, employer and employee, master and servant, would not be substantially changed. For the "lower classes," as he put it, there was little hope for improvement other than that afforded by a diminishing birth rate. Some persons, Malthus clearly states, have a better right to existence than others; and the tendency of population is constantly to bring into the world

human beings for whom nature refuses to provide, and who consequently "have not the slightest right to any share in the existing store of the necessaries of life"; whom she tells as interlopers to be gone, "and does not hesitate to extort by force obedience to her mandates," employing for that purpose "hunger and pestilence, war and crime, mortality and neglect of infantine life, prostitution, and syphilis."

Ricardo's tone is entirely different, but can hardly be described as cheerful. There was something almost inhuman in his detachment. Yet although, like Malthus, he took a somber view of human affairs, his doctrines were destined to open the way to dynamic social philosophies aiming at economic improvement. His *Principles of Political Economy and Taxation*, published in 1817, starts with a chapter in which he lays down the proposition: "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production." This conception of value as embodied labor was later to be turned to revolutionary ends by Karl Marx and other socialistic thinkers. In the second chapter of Ricardo's *Principles* we get the "differential" theory of rent which carried his name to the ends of the earth and which has been discussed in hundreds of books and essays. This is, in effect, that the rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use. Or, to put it in another way, the differences between production costs on soil of maximum fertility and those on less fertile soil give rise to a differential income in favor of the owners of the more fertile soil. The Ricardian theory, which easily fits into a concept of "unearned increment," was used by Henry George to support his arguments in behalf of the single tax.

Five years before the publication of Adam Smith's *Wealth of Nations* a man was born in Wales who was destined to exert a strong influence on both the practical and theoretical sides of economic development. His name was Robert Owen. Like Mun and Turgot, he played a prominent part in practical affairs. He succeeded not only in making money in his cotton mills but also in establishing model working and living conditions for the men, women, and children whom he employed. Unlike Smith, Owen saw an unrestrained, laissez-faire economy bringing poverty and disease to thousands.

It was not until he became a crusader that Owen tasted defeat, first in an effort to persuade the British Parliament to pass the kind of legislation that he wanted, and, secondly, in the management of his communistic colony in New Harmony, Indiana. He discovered that human nature is stubborn and that social progress is slow.

Owen's economic philosophy found its most complete expression in *A New View of Society* (1813). The word socialism was first used by

Owen and his followers. He was later called a "utopian" socialist by Karl Marx. It was Owen's hope that "villages of co-operation" might be instituted by the state or the poor law authorities or, in default of state action, by philanthropic subscription. When his communistic experiments failed, he turned to trade-unionism, to labor exchanges, and to consumers' co-operation. These movements, however, appealed to him not as ends in themselves but as steps toward the building of a co-operative order of society.

The ideas of Robert Owen, Saint-Simon, Fourier, and other so-called utopian socialists on the possibilities of co-operation in economic life influenced the thinking of John Stuart Mill to the extent that he injected large humanitarian considerations into his economic analyses. He believed in using governmental powers to bring about a wider diffusion of property. One of the fiscal reforms that he favored was taxation and regulation of inheritances and bequests in such a way as to break up large fortunes. Another was a plan for appropriating the unearned increment of land. But Mill, also influenced by Ricardo, was ever trying to reconcile the seemingly opposite doctrines of competition, in which he believed, and of co-operation, which he also held to be necessary. He looked forward to a marked improvement in the condition of wageworkers, and he believed that the working class was destined to play an increasingly important role in the development of society. It is as a connecting link between Adam Smith, Malthus, and Ricardo, on the one hand, and Karl Marx and Henry George, on the other, that John Stuart Mill is chiefly significant.

In the five books and seventy-three chapters of Mill's own *Principles of Political Economy*, published in 1848, we can see a mind divided. Mill radically modified the older and fatalistic conception of "economic man" molded by his environment, and put in its place a conception of man creating the world anew. Where Adam Smith had seen only a sequence of events in nature, Mill saw the living human will operating.

Emphasis on what Mill called the "probable futurity of the working classes" found militant expression in Karl Marx's *Capital*, published in 1867. No two thinkers could have been more unlike, temperamentally, than John Stuart Mill and Karl Marx, yet both made important contributions to the collectivist trend.

It is interesting to note that Marx, in his intense reaction from "utopianism," chose to align himself with Adam Smith and Ricardo rather than with his socialistic predecessors Owen, Saint-Simon, and Fourier. He knew, of course, that Smith and Ricardo were individualists, committed in large degree to a philosophy of "laissez faire." But, in Marx's view, their penetrating analyses of what he regarded as the evolving capitalistic order of society were indispensable to the further development of economic

science. A third thinker, the German philosopher Hegel, whom Marx had studied in his youth, furnished the idea of "dialectic," another indispensable element in Marx's philosophy.

The word dialectic comes from a Greek word meaning the art of disputation and the discrimination of truth from error. In Hegel's philosophy, which was rooted, like Charles Darwin's biological philosophy, in the idea of development, thesis and antithesis are succeeded by synthesis. The underlying conception of both Hegel's and Marx's dialectic is that one-sided tendencies correct one another—that truth is born of the conflict of ideas, and that justice is born of the conflict of forces in actual life. Marx applied this conception to the "class struggle" of capitalists and wage-workers. He believed that the capitalist system is based on exploitation and that its irreconcilable conflicts will lead to its dissolution. Just as slavery passed into serfdom, and as feudalism passed into capitalism, so, according to Marx, capitalism in its turn will pass into socialism. Hegel was a philosophical idealist and Marx was a philosophical materialist, but this fact does not interfere with Marx's acknowledgment of his intellectual debt to Hegel. "The mystification which dialectic suffers in Hegel's hands," says Marx in his preface to the second German edition of *Capital*, "by no means prevents him from being the first to present its general form of working in a comprehensive and conscious manner. With him it is standing on its head. It must be turned right side up again, if you would discover the rational kernel within the mystical shell."

Capital is nothing if it is not a fighting book. Marx admires Adam Smith and Ricardo up to certain points, but he emphasizes what he regards as their limitations. He accuses Malthus of "shameless plagiarism"; he says that John Stuart Mill represents "a shallow syncretism"; and he characterizes Jeremy Bentham as "that insipid, pedantic, leather-tongued oracle of the ordinary bourgeois intelligence of the nineteenth century."

Implicit in *Capital* are Marx's economic interpretation of history, his theory of economic crises, and his confidence in the ultimate triumph of the working class. Some of his prophecies have not been fulfilled and some of his theorems are not demonstrable, but his mental energy and his passionate championship of the rights of workingmen are still a vital force in human affairs. At the core of his doctrine is the idea of surplus value, which he may or may not have exaggerated. According to his collaborator-Frederick Engels, the originality of Marx lies in his discovery not of the labor theory of value or of the conception of surplus value—these he took from the school of Ricardo—but of the fact that "the transformation of money into capital is based on the purchase and sale of labor power."

Henry George's *Progress and Poverty*, published in 1879, marked a shift of emphasis from the capital-labor relationship to land. George in-

interprets labor and capital in terms of partnership rather than of antagonism, and he draws on Ricardo's differential theory of rent rather than on his theory of value. The Malthusian theory he scorns. He says: "The reason why, in spite of the increase of productive power, wages constantly tend to a minimum which will give but a bare living, is that, with increase in productive power, rent tends to even greater increase, thus producing a constant tendency to the forcing down of wages."

The single tax on land values which Henry George proposed may appropriately be viewed as a reversion, in a later generation and in a different setting, to the *impôt unique* of the French physiocrats. It was also an effort to return to "natural liberty" and to check the advance of socialism.

After Henry George, the economic doctrines of Thorstein Veblen, author of *The Theory of the Leisure Class* (1899) and *The Engineers and the Price System* (1921), exhibited new and startling tendencies. Veblen had no respect for modern civilization. He saw in social development a culture struggle rather than a class struggle. Man's vanity, as well as his economic interest, is involved. According to Veblen, the production of goods under capitalism is motivated by the desire to get money, and in the last resort goods are subordinated to money. The acquisitive instinct, the habits of the merchant, vested interests, absentee ownership, are making, he said, the industrial system more and more unworkable. Technological inventions are throwing multitudes out of work. Periods of prosperity are followed by periods of depression. Industrial friction within nations and between nations inevitably leads to wars.

There is no clear alternative, in Veblen's writings, to the present economic system. He was not an enthusiast or a propagandist. All he would say was that the present grows out of the past and that the future will grow out of the present. Some form of "technocracy" seemed to be the logic of his attitude, and by technocracy he meant a system in which the engineers (conceived of in an immensely extended sense) would dominate production and distribution.

For more than three centuries—from 1615, the year of the publication of Antoine de Montchrétien's *Treatise on Political Economy*, to 1921, the year of the publication of Thorstein Veblen's *Engineers and the Price System*—the economic pendulum has been swinging between liberty and legislation, between competition and co-operation, between capitalism and some form of collectivism. The debate is still going on. While neither side in innumerable disputes can be said to have won complete victories, we are bound to recognize that, during the period covered by this book, society, in America as well as in most of the European countries, has been moving towards economic democracy and the extension of government

functions. Ideas that would once have seemed revolutionary are now regarded as commonplace. Labor unions have been legalized; factory laws and employers' liability acts have been passed; social-security legislation has been enacted; old-age pensions are granted.

Economic science may be still in its infancy, but its masterworks, as presented in these pages, have inspired, and are still inspiring, the policies of nations. With the groundwork already established, it is reasonable to predict that political economy will achieve a greater and greater clarity, and will contribute, in an increasing degree, to human welfare.