

# PRINCIPLES ECONOMICS

OF  
L

LAWRENCE DE GRAFF PH.D.

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NEW YORK.

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# OUTLINES AND QUESTIONS

ON THE

# PRINCIPLES OF ECONOMICS

By

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in the United States."

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**FOR THE USE OF TEACHERS AND  
STUDENTS**

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"The teacher is usually the waiter at the intellectual table,  
while the cook is the author of the text-books  
which he uses. It is, however, an aim  
of higher education to unite  
these functions."

JOHN B. CLARK,

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## INTRODUCTORY.

Prof. V. H. Patton wrote: "In a complete and practical education of American youth, it is fitting that the study of Political Economy should hold an honored place, inasmuch as this branch of knowledge, so suggestive in its main principles, is valuable to both sexes in the active duties of life."

It is but recently that the study of the principles of Political Economy has been given its proper place in the curriculum of our secondary schools and colleges. This is a movement in the right direction. Our American youth should study our social and industrial conditions. Economic conditions are constantly changing, and, consequently, Economic Science is and must be one of slow but continuous growth. It is incumbent upon the teacher, the legislator and the citizen to become acquainted with the spirit and meaning of social and economic institutions.

These Outlines and Questions are intended to be suggestive, and to be used as supplementary to some good text-book. The author believes that any outline that serves to suggest definition and material, and directs the student in his researches, has an educational function. With a hope that this little pamphlet will serve this purpose, it is commended to the consideration of teachers and students.

*"There must be discussion to show how experience is to be interpreted. Wrong opinions and practices gradually yield to fact and argument; but facts and arguments, to produce any effect on the mind, must be brought before it. Very few facts are able to tell their own story, without comments to bring out their meaning. The whole strength and value, then, of human judgment, depending on the one property, that it can be set right when it is wrong, reliance can be placed on it only when the means of setting it right are kept constantly at hand. In the case of any person whose judgment is really deserving of confidence, how has it become so? Because he has kept his mind open to criticism of his opinions and conduct. Because it has been his practice to listen*

*to all that could be said against him; to profit by as much of it as was just, and expound to himself, and upon occasions to others, the fallacy of what was fallacious.*

\* \* \* \* \*

*“The steady habit of correcting and completing his own opinion by collating it with those of others, so far from causing doubt and hesitation in carrying it into practice, is the only stable foundation for a just reliance on it; for, being cognizant of all that can, at least obviously, be said against him, and having taken up his position against all gain-sayers, knowing that he has sought for objections and difficulties instead of avoiding them, and has shut out no light which can be thrown upon the subject from any quarter — he has a right to think his judgment better than that of any person or any multitude, who have not gone through a similar process.” — J. S. MILL, Essay on Liberty.*



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# ECONOMICS.

## GENERAL NOTIONS.

### Definitions.

1. Political Economy is the science of man in society in relation to his material wants and desires.
2. "Political Economy or Economics is a study of man's actions in the ordinary business of life; it inquires how he gets his income and how he uses it." — *Alfred Marshall*.
3. "Political Economy treats of the commercial and industrial activities of men from the standpoint of values and markets." — *H. J. Davenport*.
4. An economic law is a statement of a uniformity in economic phenomena.

### Etymology.

From OIKOS, a house, and NOMOS, a law, *economy*, the law which regulates the household, *household* according to the Greeks, comprehending all the goods in possession of the family) and political, from *POLIS* (civitas), the city, extending its application to society or the nation at large.

### Place.

Anthropology.

Sociology.

ECONOMICS.

Civics.

Ethics.

Law.

Finance, etc.

### Aim.

The practical aim of Political Economy is to enable the student to judge and predict with greater accuracy the effects of governmental and social action on the wealth and welfare of the nation.

**Premises.**

1. Facts of human nature.
2. Facts of human society.
3. Facts of the physical constitution of the earth.
4. Data of all sciences taken so far as they can be related to the accumulation of wealth.

The two schools, English and German, disagree somewhat with respect to the premises of Economics, the latter school accepting a larger field. The line of division is not well-defined. American writers follow the German aim and method generally.

**Method.**

Method in scientific language means the road that must be followed for the discovery of truth.— *Gide*.

1. Deduction.

The deductive method starts from certain general principles or universal truths that are regarded as indisputable, and proceeds by way of logical consequence to deduce an indefinite series of propositions. It is reasoning from the general to the particular.

2. Induction.

The inductive method starts from certain particular facts, the result of observation and investigation, and proceeds by way of logical consequence to discover general propositions or universal truths. It is reasoning from the particular to the general.

3. The adoption of both methods is advocated by some economists as the only safe method to discover economic truths.
4. Prof. Charles Gide holds both methods too absolute, and offers the following as the real method : —

*First.* By the observation of facts without any pre-conceived notion, even those which at first sight appear to be the most trivial.

*Second.* By the imagination of a general explanation which will enable us to establish mutual relations between certain groups of facts ; i. e., by the forming of an hypothesis.

*Third.* By the verification of the validity of this hypothesis, by seeking, by the aid of experiment, if possible, at

any rate by specially directed observations, to discover whether it exactly corresponds with the facts.

### Is there a Science of Political Economy ?

1. Science implies *laws*, which are fixed and regular in their operation.
2. Comte held "the test of any science lies in the power to predict." Can Political Economy predict? Cairnes holds that economic prevision is a prevision not of events, but of tendencies.
3. In stating an economic law we say "other conditions being equal, such and such is so." Do we need to preface the laws of physics or chemistry in this way?
4. Experiment is almost impossible.
5. It seems each nation attempts an economy of its own—a national economy. Each age, also, works out its own system.
6. Social and economic facts are necessarily limited and generally inaccurate, hence conclusions differ widely.

### Difficulties Political Economy Encounters.

1. The writings are colored by the individual writer's opinion.
2. The subject is oftentimes treated in close affinity with questions of government, sociology, etc.
3. The subject is viewed by some as too common and familiar to require discussion.
4. The conflicting ideas of the college theorist and the man of practical affairs often bring the subject into disrepute.
5. Every person of ordinary intelligence feels that his opinions on economic questions are entitled to consideration, hence the liberty of formulating and expressing so-called economic principles.
6. Conflict of theory among economists.
7. Confusion of the nomenclature.

The vocabulary of economists contains words whose popular and scientific meanings are quite different. The basic word of the science, *wealth*, yet awaits a definition.

### Divisions of the Subject.

- I. Production.
- II. [Exchange].

III. Distribution.

IV. Consumption.

### Schools of Political Economy.

#### I. As enumerated by Prof. Gide.

##### 1. Liberal or Classical.

(a) This school claims that human societies are governed by natural laws which we could not alter one jot, even if we wished, since they are not of our making. Moreover, we have not the least interest in modifying them, even if we could; for they are good, or at any rate the best possible. Their gospel is summed up in four words: "Laissez faire, laissez passer."

(b) Represented by Beaulieu, Bastiat, Ricardo, etc.

(c) Criticism.

1. A very marked tendency to optimism.

2. Not logical or legitimate to conclude that because natural laws are permanent and immutable, economic facts and institutions have the same character of permanence.

3. There is no *jus divina* governing wages, private property, etc. "Economic institutions do change even at man's bidding."

##### 2. The Socialist School. (Collectivism.)

(a) This school claims that private property and free competition are vices in modern society, and tend to sacrifice social to private interest. The socialist is naturally disposed to extend as far as possible the functions of collective powers, represented by the state or municipality. It would result in the creation of a new state.

(b) Represented by Proudhon, Wagner, Karl Marx, Henry George, etc.

(c) Criticism.

The two opposing theories as to the proper sphere of the state, individualism and socialism, stand for two great truths.

The constant intrusion of the state on fields of activity previously given to the individual, is a natural result of the constant increase in the separation of employments necessitating more extensive organization. It is impossible to

approve or disapprove *a priori* of every intrusion of the state into fields hitherto set aside for the individual. Whenever these intrusions promise definitely the increase of the influence of the individual, it is desired. The burden of the proof is thrown upon him who would have the state advance into new fields. There is no conclusive presumption one way or the other that the state should assume new functions.

Everyday experience teaches us that associations, large or small, are worth not a jot more than the individuals of whom they are composed.

Man requires one or two incentives: love or compulsion. Would Socialism weaken the effort of the individual to do and to work?

### 3. The Catholic or Christian School.

1 This school desires to re-establish social concord by the influence of a triple authority: (a) the father in the family, (b) the employer in the workshop, (c) the church in the State. It does not aim to abolish present institutions.

#### 2. Criticism.

The school attacks human liberty, and holds that man through this liberty has seriously deranged the social system. It seeks its ideal in the past rather than in the future.

### 2. The Historical or Realistic School.

1. This school rejects the deductive method, and claims that economic truth is secured by a patient observation of facts. It is to history that the eyes of the realist are turned. The doctrine of *laissez faire* is rejected.

#### 2. Criticism.

The method of this school tends to develop a national science. Its aim is practical, and hence new life has been given to empty theories by a study of history, the comparison of laws and statistics. The true character of the science, however, in spite of all endeavors to the contrary, must remain in the nature of an abstraction.

## II. As enumerated by Prof. Laughlin. (Historical development.)

### (1) Mercantile School.

#### 1. Principles.

- (a) Money, the only form of wealth.
- (b) Secure balance of trade.
- (c) Prohibit export of specie.

- (d) Navigation Laws. (Colonial policy.)
- (e) High import duties.
- (f) Stimulate home industry.
- (g) Self-aggrandizement.
- 2. Time. About 1600–1750.
- 3. Representatives.
  - Thos. Mun, John Locke, Colbert.
- 4. Faults.
  - (a) Too closely connected with politics.
  - (b) Fallacy of the abundance of money and balance of trade.
  - (c) Monopolies created.
  - (d) Tariff restrictions between provinces.
  - (e) Heavy taxation.
  - (f) Arbitrary regulations.
  - (g) Subordinated science to the art.
- (2) Physiocratic or Agricultural School.
  - 1. Principles.
    - (a) The soil the sole source of a nation's wealth.
    - (b) The soil should bear all national burdens.
    - (c) Remove all restrictions from agriculture.
    - (d) Wealth not increased by money *per se*.
    - (e) Free trade. (*Laissez faire.*)
  - 2. Time.
    - About 1750–1790.
  - 3. Representatives.
    - Francis Quesnay, Mirabeau, Turgot.
  - 4. Faults.
    - (a) Commerce and manufactures neglected.
    - (b) Labor element ignored.
    - (c) Basis of taxation.
- (3) English or Industrial School.
  - 1. Principles.
    - (a) Source of a nation's wealth in all three forms,—agriculture, manufacture, and commerce.
    - (b) All labor unproductive that does not tend to production or the exchange of commodities.
    - (c) No state control.
    - (d) Free competition. No governmental interference.
    - (e) Inequalities in profits equalized by competition.



(f) Labor recognized as a factor in the source of wealth.

(g) Division of labor explained.

(h) Money properly defined.

2. Time.

About 1775.

Periods { Constructive (ending with Ricardo).  
          { Critical.

3. Representatives.

Adam Smith, Say, Bastiat, Malthus, Ricardo, Cairnes, etc., etc.

4. Criticisms on Smith's "Wealth of Nations."

1. Failure to fulfill the promise of the title.

2. Influence of Physiocrats strongly felt.

3. Smith writes as though the world was one big government, and man a citizen of the world.

4. No inequalities of civilization or industrial status to affect competition of producer with producer is taken into account.

5. More ideal than practical.

**Readings.**

"Principles of Political Economy." J. S. Mill. Edited by J. Laurence Laughlin. pp. 1-42.

"Principles of Political Economy." Chas. Gide. pp. 1-30.

"Principles of Economics." Alfred Marshall. Vol. 1, Book 1.

"History of Political Economy." J. K. Ingram.

"Outlines of Economic Theory." H. J. Davenport. pp. 1-13.

"Elements of Political Economy." R. E. Thompson. pp. 11-31.

**A LESSON IN BIOGRAPHY.**

Method: Let each student be assigned one or more writers for special investigation. (2) Tabulate the facts from the reports made. (3) The students may make inductions as follows: (a) From what professions or callings has Political Economy claimed the most writers? (b) What were the characteristics of the Age producing the best writers? (c) Does the Science and the Art go hand in hand? (The teacher may suggest other questions.)

**Biographical Outline.**

1. Name of writer.

2. Time. (Birth-Death.)

3. Nationality.

4. Business or profession.
5. Character of the Age.  
(a) Political. (b) Social. (c) Religious.
6. School to which the writer belonged.
7. Principles he advanced.
8. His most important writings.
9. His influence on other writers.
10. His rank.

Writers suggested for study:

Francis Quesnay, Colbert, Turgot, T. R. Malthus, David Ricardo, Adam Smith, W. Stanley Jevons, J. S. Mill, J. E. Cairnes, Alfred Marshall, H. C. Carey, F. A. Walker, Henry George, Karl Marx, P. J. Proudhon, Walter Bagehot, Roscher, Jeremy Bentham, Cliffe Leslie, Bastiat, J. B. Say, Senior.

### Readings.

- "A History of Political Economy." J. K. Ingram.  
 "Guide to the Study of Political Economy." Cossa.  
 "Mill's Principles of Political Economy." Edition by J. L. Laughlin. pp. 1-42.  
 "Encyclopedia Britannica. Vol. 19. (1885) on the article, "Political Economy."  
 "Appleton's Encyclopedia of American Biography for American Writers."

### Illustrative Quotations.

"Science is international; it suffers when the natural relation between different countries is interrupted, and gains when the connection is resumed."—*J. B. Clark, Intro. to Gide.*

"It is clear that the three questions (How can wealth be produced? What use should be made of it? In what manner should it be divided?) which constitute the pith of political economy are essentially practical ones, and it seems to follow that the science whose object it is to supply an answer to these questions, should itself be of a practical nature; in other words, be an *art* rather than *science*."—*Gide.*

"Aristotle and Xenophon had some comprehension of the theory of money, and Plato had defined its functions with some accuracy. The economic laws of the Romans were all summed up in the idea of enriching the metropolis at the expense of the dependencies. During the middle ages no systematic study was undertaken, and the nature of economic laws was not even suspected."—*J. L. Laughlin, Intro. to Mill,*

“The desires, passions, and propensities which influence mankind in the pursuit of wealth are almost infinite. Yet among these are some principles of so marked and paramount a character as both to admit of being ascertained, and when ascertained, to afford the data for determining the most important laws of the production and distribution of wealth. To possess himself of these is the first business of the political economist. He has then to take account of some leading physiological facts connected with human nature; and lastly, to ascertain the principal physical characteristics of those natural agents of production on which human industry is exercised.”—*J. F. Cairnes*.

“Even moral and religious considerations are to be taken into account by the economist precisely in so far as they are found, in fact, to affect the conduct of men in the pursuit of wealth.”  
—*F. A. Walker*.

“Political Economy is concerned with man solely as a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means to that end. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labor, and desire of the present enjoyment of costly indulgences.”—*J. S. Mill*.

“While men are beings possessed of a will, they ordinarily act from motives. This is especially true of their conduct in regard to their material welfare; in this connection the same motives act with great uniformity upon almost all men. The same wants exist for all; the same welfare is desired by all; so that in this department of science of man there is so little caprice that there is nearly as much power to foresee and foretell what men will do, as in some of the sciences to foretell the actions of things. Nearly, but not quite so much; for while men are agreed as to the end here, there is room for difference of opinion as to the means, and consequently for variety of action—for wise and unwise ways of procedure.”—*R. E. Thompson*.

“No doubt, in framing a scientific nomenclature, it is often necessary to depart from the ordinary uses of words. Political Economy draws its technical terms from popular language, and the mere circumstance that it is obliged to assign a precise meaning to these terms, and to adhere strictly to this meaning when

once assigned — this circumstance compels a deviation from the more or less vague and fluctuating sense which attaches to all words in extensive popular use.”— *J. E. Cairnes*.

“The value of the results of economic reasoning depends on the correctness of its assumptions with regard to the nature of man. If man is not the being he is assumed to be, there is no certainty that the conclusions will be even approximately correct.

\* \* \* \* \*

“The actual course of a cannon-ball may be determined by a mathematical computation, followed by the proper allowance for atmospheric resistance; but the social activities of man can not be determined by assuming that man is a being of a certain kind, elaborating the conclusions with nicety, and then endeavoring to introduce the proper allowance for the fact that man is, after all, a being of quite a different kind.”— *J. B. Clark*.

“The student becomes aware that every one of the great systems (economic) possessed some truth, and no one has been elaborated which contains the whole truth. He becomes aware of a still more important fact, and that is, that owing to the continual changes in the nature of the elements with which he has to deal, no universal system, no system which shall be valid in all times and places, can at present, if indeed it ever can, be formulated. We can formulate for one time and country, for our type of society and industry, for our race and nation; but such a formulation, even though perfectly correct, would probably not hold for any other time or country or type or race, though it would, of course, hold true of them to just the extent to which they are similar to us and ours.”— *Prof. E. J. James, Introduction to Ingram's "History of Political Economy."*

#### Questions.

1. Why should Carlyle call political economy “a dismal science”?
2. Comte is called a positivist. Spencer, Mill, and Bentham are styled utilitarian. What is the meaning of each?
3. Spencer in England and Giddings in America have developed the “organic theory” of society. Explain. What criticism, if any?
4. “Numerous schools in political economy is an incontestable sign of inferiority of the same.” Why?

5. "The notion of value is really the basis of all political economy." Explain.

6. On what questions does the legislator join hands with the economist? The moralist and the economist?

7. What is meant by the inductive method of teaching Latin? Illustrate.

8. France in 1544, and England in 1552, forbade the export of specie. What economic principle of the times were they attempting to carry out?

9. What were the first two subjects to engage the attention of economists?

10. Marshall holds that anything that can be quantitatively measured in terms of money is proper subject matter for political economy. Explain.

11. Who is called the "Father of Political Economy"? The "Father of Free Trade"?

12. What economic school held that the laborer did not produce wealth?

13. What were the causes that led to the systematic study of the laws of political economy in the 16th century?

14. Discuss the philosophy of egoism. (*b*) Altruism. (*c*) Hedonism.

15. Hobbes held that selfishness was the motive of all human action. Do you agree with him?

16. Distinguish carefully between the terms, *science* and *art*.

17. Mill constructed for the theory of economics an "economic man." Define and criticise.

18. State some of the modern tendencies of economic thought.

## WEALTH AND VALUE.

---

### What shall be included in the term Wealth?

1. Material things?
2. Immaterial things?
3. Natural agents?
4. Articles of value, or those things capable of a money measure and nothing else?
5. Must those articles be limited in supply?
6. Is value in use a necessary element?

### Popular and Scientific meanings distinguished.

1. Would anyone be rich in a communistic state of society?
2. Does wealth in an economic sense signify *abundance*?

### Motives which incite Men to seek Wealth.

1. To satisfy the desire for well-being.  
(a) Food. (b) Housing. (c) Clothing. (d) Ornaments;  
or (a) Necessaries. (b) Comforts. (c) Luxuries.
2. To satisfy the desire for social inequality.  
(1) These motives examined.  
(2) A study of the development of new economic wants from primitive society to the present time.  
(a) Nomadic. (b) Herdsmen. (c) Husbandmen. (d) Manufacturers. (e) Traders (Commerce).

### The Idea of Value.

1. Value in use and value in exchange distinguished.
2. The cause of value in exchange.

#### Theories of different economists.

- (1) J. B. Say and Jevons make *utility* the sole cause of value.
- (2) J. S. Mill names two conditions. (a) *Utility*. (b) *Difficulty of attainment*.
- (3) Cairnes adds to Mill's conditions a third element, *transferableness*.

- (4) Walker makes value depend wholly on the relation between demand and supply.
- (5) Gide makes *utility* the cause of value, and names *limitation in quantity* or *scarcity* a subordinate element.
- (6) The mathematical school gives the preference to *scarcity*.
- (7) The English Classical school emphasizes *difficulty of attainment*.
- (8) Roscher finds that exchange value is "based on a combination of value in use with cost value."
- (9) Cherbuliez names two conditions.
  - (a) The ability to give satisfaction and (b) Inability of attainment without effort.
- (10) Carey makes the amount of labor to produce an object similar to the one produced the cause of value: *i. e.*, the labor of reproduction.
- (11) Bastiat defines the value as the relation between two services exchanged, and makes value depend on the *labor spared* the would be acquirer.
- (12) Karl Marx rejects the idea of the individual laborer, and deals with *social labor*, or the average labor necessary for the production of the commodity in general.
- (13) Ricardo, Bastiat and Marx make utility the condition of value, but name *labor* as its cause or measure.

#### Examination of the "labor theory" of Value.

1. If the value of a commodity had for its cause or substance the labor expended in its production, would not this value necessarily be immutable?
2. If labor was the cause of value, would not equal values always have to correspond to equal labors and unequal to unequal?
3. If labor were the cause of value, would a thing on which no labor was expended have any value?
4. If labor is the cause of value, what is the cause of the value of the commodity of labor itself?

**Relation of Value to Demand and Supply.**

1. The intensity of demand increasing, the supply remaining (a) constant (b) increasing.
2. The intensity of demand diminishing, supply remaining (a) constant (b) increasing.

Query: 1. How will each of these conditions affect the market value of a commodity in question?

2. Is the ratio between Demand and Supply a fixed ratio?

**Relation of Market Value to Normal Value.**

1.  $D. > S.$ , then  $M. V. > N. V.$
2.  $D. < S.$  then  $M. V. < N. V.$
3.  $D. = S.$  then  $M. V. = N. V.$

**The Commodities of the World Classified.**

- I. Those whose supply is absolutely limited; e. g., ancient pictures, sculpture, Cremona violins, rare wines, etc.
- II. Those whose supply may be increased indefinitely so long as labor and capital can be secured: e. g., books.
- III. Those whose supply is increased at a gradually increasing cost, or those affected by the Law of Diminishing Returns; e. g., corn, gold.

**The Laws Governing the Value of each class.**

- I. The Market Value of Class I is determined by the intensity of the demand and the supply offered. It is a "Monopoly Value," and may be viewed as fictitious.
- II. The Normal Value of Class II is determined (in the long run) by the Cost of Production; the Market Value by the law of demand and supply.
- III. The Normal Value of Class III is determined by the Cost of Production of that portion of the whole amount needed, which is produced at the greatest disadvantage; the Market Value is regulated by demand and supply.

*(Free competition in each of the above cases is contemplated.)*

Note: (1) Prof. Gide holds that the market value of Class II is regulated by the minimum cost of the commodity; of Class III, by the maximum cost of production

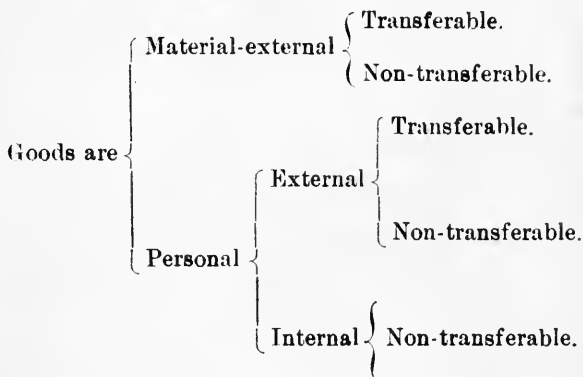
Query: Does this view agree with Mill's, *supra*?



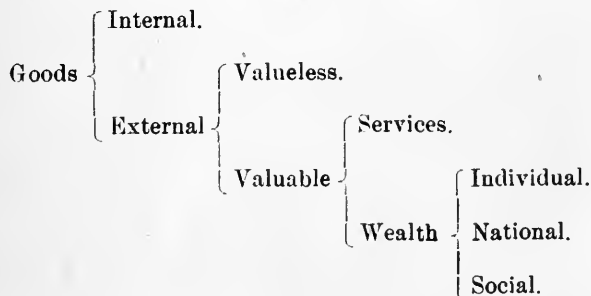
(2) Prof. Clark adds a fourth class; those whose cost of production *diminishes* with increasing production.

Query: Do you think it is essential to name a fourth class? Can such a class be related to Class II? What would determine the values of such a class?

**Classification of "Goods."** *Marshall.*



**Classification of "Goods."** *Davenport.*



Note: In the above outlines point out what you consider wealth.

**Definitions of Wealth and Value.**

Wealth is a short name for all the numberless things we all like to have and to own.

Wealth consists of all the useful and agreeable material objects we own, or have the right to use and enjoy without asking the consent of any other person.—*Macvane*.

Wealth is that which can be exchanged, is limited in supply, and is useful.—*Putton*.

Wealth is the collective name for all useful things that can be owned and exchanged.—*Wayland*.

Wealth includes all material goods that have value.—*Davenport*.

Wealth is all useful and agreeable things which possess exchangeable value.—*J. S. Mill*.

Wealth consists of natural products that have been secured, moved, combined, separated, or in any other way modified by our exertions so as to fit them for the gratification of our desires.—*Henry George*.

Wealth is anything transferable, limited in supply and useful.—*Jevons*.

Wealth is all articles of value and nothing else.—*F. A. Walker*.

Wealth is all material objects possessing utility.—*Lavasseur*.

Wealth consists in power to command material service, including such intangible things as mental qualities.—*Carey*.

Wealth then consists in the relative-wealth-constituting elements in man's material environment. It is objective to the user, material, useful, and appropriable.—*J. B. Clark*.

Everything that is of a nature to answer to any desire felt by man and to obtain for him certain advantages, everything that in his eyes is worth the trouble of being paid for, either at the price of a personal effort or by the sacrifice of a sum of money, necessarily falls within the sphere of political economy and constitutes "wealth."—*Gide*.

Wealth includes all those things external to a man which [1] belong to him, and [2] which are directly capable of money measure—a measure that represents, on the one side, the efforts and sacrifices by which they have been called into existence, and, on the other, the wants which they satisfy.—*Marshall*.

Material wealth is some transferable thing, for the enjoyment of which we are willing to undergo a sacrifice.—*J. L. Laughlin*.

Value is the ratio in which commodities in open market are exchanged against each other.—*J. E. Cairnes.*

Value is the power which an article confers upon its possessor, irrespective of legal authority or personal sentiments, of commanding, in exchange for itself, the labor or the products of the labor of others.—*P. A. Walker.*

Value is the measure of the resistance to be overcome in obtaining those commodities or things required for our purpose—of the power of nature over man.—*Carey.*

Value is proportion in exchange.—*Jerons.*

Value is quantitative measure of utility.—*Clark.*

Value is always and everywhere the relation of mutual purchase established between two services by their exchange.—*A. L. Perry.*

Value is purely relative, consisting as it does in a preference given to one thing over another.—*Chas. Gide.*

The value of any particular thing is the measure of its power of commanding the sacrifice of other things.—*H. J. Davenport.*

The valuation of an object is nothing more or less than the affirmation that it is in a certain degree of comparative estimation with some other specified object, and any other object possessed of value may serve as the point of comparison.—*J. B. Say.*

#### Further Definitions.

*Price* is the value of a thing in relation to money—the quantity of money for which it will exchange.—*Mill.*

*Utility* is the capacity which anything or any service has to gratify human desire.

*Final Utility* is the point in buying at which the buyer ceases to buy, preferring to keep his money rather than take any more of the article at that price.

*Normal Price* marks the cost of production at the greatest disadvantage.

*Market Price* is the price that marks the final utility.

Demand is the desire for commodities or services seeking its end by an offer of general purchasing power; and supply is the desire for general purchasing power, seeking its end by an offer of specific commodities or services.—*Cairnes.*

The actual market price is the price which equalizes supply and demand in a given market.—*J. S. Mill*.

The normal price of a commodity is that price which suffices, and no more than suffices to yield to the producers what is considered to be the average and usual remuneration on such sacrifices as they undergo.—*Cairnes*.

Economists understand by the term *market*, not any particular market-place in which things are bought and sold, but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly.—*Cournot*.

#### **Illustrative Quotations.**

“The numberless theories which have been propounded for the explanation of the phenomena of value may be divided into two distinct groups or tendencies. The one is bound up with the idea of utility, and rests value on man’s *wants*; the other is bound up with the idea of labor, and rests value on man’s *efforts*. The first is, in our opinion, the expression of *what is*; in fact, the value of things is proportional to our wants or desires. The second is the expression of *what should be*; in point of equity it is to be wished that value might be proportional to our efforts of labor.”—*Gide*.

“Demand and supply govern the value of all things that can not be indefinitely increased; except that even for them, when produced by industry, there is a minimum value, determined by the cost of production. But in all things which admit of indefinite multiplication, demand and supply only determine the perturbations of value during a period which can not exceed the length of time necessary for altering the supply. While thus ruling the oscillations of value, they themselves obey a superior force which makes value gravitate toward Cost of Production, and which would settle and keep it there, if fresh disturbing influences were not continually arising to make it again deviate.”—*J. S. Mill*.

“A measurement of utility made by an individual gives value in use, not at all identical with what passes under that name in current discussion, which is utility itself, but the quantitative measure of that utility to an individual user. We have now to see, that, in a sense, measurements of utility are never made by

any other than a single independent being. Society, as an organic whole, is to be regarded as one great isolated being; and this being may and does measure utilities like a solitary tenant of an island. That is a part of our definition,—measure of service rendered to society as an organic whole. Though the thing were priceless to its owner, it might be cheap to society.”  
— *J. B. Clark.*

### Questions.

1. Do you favor having all the wealth in the world distributed equally?

2. Are inequalities in men a necessary evil? Do you favor a state of social equality?

3. Compare the wants of a savage with your own wants.

4. Compare the wants of the city inhabitant with those of the rural inhabitant.

5. From the time of Diogenes there have been moralists who have regarded the progressive and indefinite multiplication of wants as a great evil. How would you answer such a person?

6. Every plant is a weed until some property useful to man is discovered. What has this to do with wealth?

7. We do not love money any more than we do baggage-checks or soup-tickets. Why, then, do we seek money? How about the miser?

8. Are precious metals on the planet Mars, wealth? In the ocean? Give reasons.

9. One person spends \$1,000 in a home, and another \$1,000 in an education. Do you deem both to fall within the category of wealth?

10. Why has a tailor-made suit more value than a ready made suit when both serve the same purpose?

11. Why did the mere rumor of Edison's invention of lighting [1878] cause a serious fall in the price of gas stocks?

12. Is value more subjective than objective in character?

13. Does a national loan, *per se*, increase the wealth of the country?

14. Which of the following do you classify in the catalogue of wealth: Honesty? Land? Forests? Ice? Good-will of a business? Professional skill? An article which has no use? Bank stock? A pleasure boat? Admiral Dewey's autograph? The ability to sing?

Music? Food? Money? Electricity? A lecture to which you pay admission? A lecture to which you do not pay admission? A phonograph? Music by a phonograph? Windows of a dwelling house in a populous city?

15. Why has the diamond more value than the amethyst?

16. Why are strawberries generally the cheapest in the Saturday afternoon market?

17. Do men dive to the bottom of the sea to get pearls because they are valuable, or are pearls valuable because men must dive to the bottom of the sea to get them?

18. When you speak of *demand*, do you always mean an *effectual* demand? Explain.

19. Why does the Natural [or Normal] Price of commodities vary from the Market Price?

20. If you had \$10,000, what would you do with it?

21. In some countries a man's wealth is measured by the number of his wives. Are the women *wealth* in such a society?

22. A dog has been trained to guard sheep. Is this an increase in wealth?

23. Would any system of political economy be possible for a man alone on a desert island? Did the terms wealth or value have any meaning to Crusoe on the island of Juan Fernandez?

24. Walker says that there are some things that are better than wealth, but are not wealth. Explain.

25. Why will a large increase in the annual output of the precious metals have a less perceptible effect on their value than a corresponding increase in the production of wheat on its value?

26. There is no such thing as a general rise of values, but there is such a thing as a general rise of prices. Explain.

27. "Value varies in direct ratio of the quantities demanded, and in inverse ratio of the quantities offered." Is the proposition absolutely false?

28. "Moreover, it is a *petitio principii* to say that the cost of production is the cause of the value of things. On the contrary, it would be more correct to say that *it is the value of the product which determines the cost of production.*" Comment on the statement.

29. "The equalization of income is certainly a good thing to aim at, but economy in production is better." What does this argue?

30. Does the reproduction of Millet's "Angelus" lessen the intensity of demand for the painting itself?

31. The same author makes these statements in the same chapter: "All forms of labor create wealth," and "Labor is not always the cause of wealth." Are these statements contradictory?

### Readings.

- "Leading Principles of Political Economy." J. E. Cairnes, Chap. I, Part I.
- "Principle of Political Economy." J. S. Mill, Edited by Laughlin. Book III Chap. I.
- "Treatise on Political Economy." J. B. Say. Book II, Chap. I.
- "Political Economy." F. A. Walker. Part III, Chap. I.
- "Political Economy." Gide. pp. 31-92.
- "Principles of Economics." Marshall. Book II, Chap. II.
- "The Philosophy of Wealth." J. B. Clark. pp. 1-31; 70-106.
- "Outlines of Economic Theory." Davenport. pp. 14-49.
- "Introduction to the Study of Economics." C. J. Bullock. pp. 180-208.
- "Institutes of Economics." E. B. Andrews. pp. 83-117.
- "Economics." A. T. Hadley. pp. 63-96.
- "Outlines of Economics." Ely. pp. 111-139.

# PRODUCTION.

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## Factors of Production.

(A). NATURE (LAND). (B). LABOR. (C). CAPITAL.

### A. Nature.

#### I. Environment.

1. Climatic conditions.
2. Geographical situation.  
[*a*]. Contour. [*b*]. Relief.
3. Geological formation.

#### II. The Ground.

#### III. The Raw Material.

1. Elements [68].
2. Compounds and Combinations.

#### IV. Motive Forces.

1. Muscular force of animals.
2. Wind, water, electricity, etc.
3. Expansive forces; e. g., Steam. Application of 1, 2,  
3. to Mechanical Powers.  
*a*. Lever. *b*. Pulley. *c*. Wedge. *d*. Screw. *e*.  
Inclined Plane.

### Questions.

1. Discuss the relative importance of land, labor, and capital as factors of production.

2. Why are the frigid and torrid zones non-productive zones of industrial activity?

3. Analyze the elements of England's greatness as a maritime and commercial power.

4. Is the city of Chicago an accident?

5. Account for the great manufactories of Pennsylvania. [*b*.]  
The New England States.

6. How much land-area is there? Is it capable of increase?  
How does this affect production?



7. What influence had geography on Greece? On Rome? What differences?

8. J. S. Mill names two requisites of production: labor and appropriate natural objects. What criticism, if any?

9. How many people to the square mile in the U. S.? England? Belgium?

10. Would there be a greater production of wealth from 40-acre farms than from 160-acre or larger?

11. What relation do good roads bear to production?

12. Do speculators or gamblers contribute to the increase of wealth?

13. Does the economist take into consideration gratuitous services and acts of philanthropy? Give examples.

14. The phenomenon of life is characterized by *a.* Genesis or birth; *b.* Development or Growth; *c.* Reproduction; *d.* Decay and Death. How far can these be harmonized with the view that society is an organism?

### Illustrative Quotations.

“There are thus two forces in the problem of history — man and nature. The resultant is the direction of human development. This is not a difficult conception. It is one aspect of that which the biologists call the law of adaptation or of correspondence to environment. Life for each one of us is a question of what there is in us plus what is outside — of our powers and energies in face of our surroundings and opportunities. Give Crusoe his island. What will he do with it? This is in part a question of Crusoe, and in part a question of the island. Likewise for races the question is one, on one side, of character and propensity; on the other, of surroundings and opportunity.” — *Davenport, Ec. Theo., p. 8.*

### B. Labor.

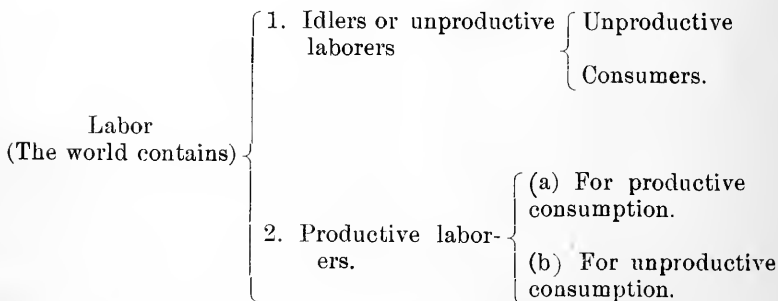
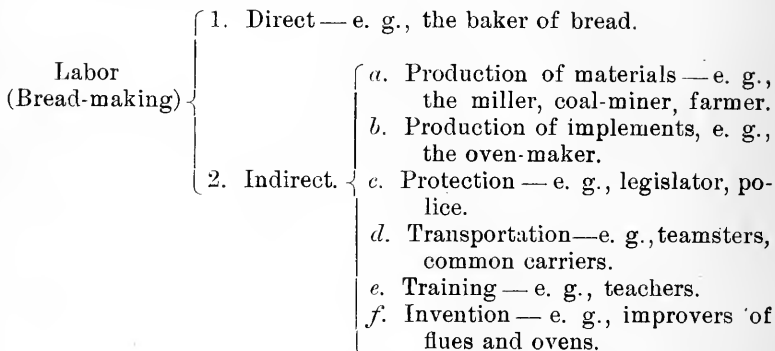
#### Definition.

1. Labor is any voluntary human effort, involving sacrifice.
2. Labor is any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work. — *Marshall,*

## Classification of:

1. Muscular and Nervous or Mental.
2. Direct and Indirect.
3. Productive and Unproductive.
4. Skilled and Unskilled.

Classes (2) and (3) illustrated.



### The Efficiency of Labor.

Conditions of —

1. Race.
2. Inherited strength.
  - (a) Muscular (b) Nervous.

3. Food.  
(a) Character, (b) Amount.
4. Environment.  
(a) Climate, (b) Natural resources.  
(c) Legislation and Protection.  
(d) Social life, (e) Sanitation.  
(f) Means of increasing intelligence.  
(g) Means of increasing the technical skill of the laborer.
5. Cheerfulness and Hopefulness.  
*Character of his reward.*

### The Mobility of Labor.

- (a) In the same country. (b) Between different countries.

### COMPETITION AMONG LABORERS.

1. Industrial society is made up of non-competing groups, but within each group, competition plays.  
Query: How does centralization of capital affect competition within these non-competing groups?

### Illustrative Quotation.

“Man can not create material things. In the mental and moral world indeed he may produce new ideas; but when he is said to produce material things, he really only produces utilities; or in other words, his efforts and sacrifices result in changing the form or arrangement of matter to adapt it better for the satisfaction of wants. All that he can do in the physical world is either to reajust matter so as to make it more useful, as when he makes a log of wood into a table; or to put it in the way of being more useful by nature, as when he puts seed where the forces of nature will make it burst out into life.” — *Marshall*. Prin. of Econ., p. 114.

“The acquisition of the rudiments of education, and in many cases, the most profound knowledge of chemistry, physics and recondite studies, are essential to production; and teachers are indirect laborers in producing almost every article in the market. In this country especially are inventors a class of indirect laborers essential to all ultimate production as it goes on.” — *Laughlin*. Mill's Prin., p. 57.

“By unproductive labor, will be understood labor which does not terminate in the creation of material wealth. And all labor, according to our present definition, must be classified as unproductive, which terminates in a permanent benefit, however important, provided that an increase of material products forms no part of that benefit. The labor of saving a friend's life is not productive, unless the friend is a productive laborer, and produces more than he consumes.” — *J. S. Mill*. Laughlin's Ed., p. 60.

“Finally discussion has been keenest with regard to services rendered, such as those afforded by the *liberal professions*; for it may seem strange to call ‘productive’ the labor of a surgeon who amputates a leg, or of the executioner who cuts off a head. However, this last step has also been taken, and now without halting at antiquated and pedantic distinctions, we have come to place under the heading of productive labor all labor that in any way whatever contributes to the satisfaction of the wants of man. The term ‘productive’ should be taken in the widest possible sense. In the social organism, thanks to the law of the division of labor, there is such a solidarity between the labors of men, and they are so closely related that it is impossible to separate them.” — *Gide, Prin. of Pol. Econ.*, p. 115.

“Whoever makes, interprets, or enforces law, produces wealth. He imparts to the commodities of the society which employs him, the essential wealth-constituting attribute of appropriability. “The production of social modifications which result in giving to commodities the attribute of appropriability is the chief economic function of legislative and judicial labor. It is as truly a wealth creating function as the direct production of useful commodities.” — *Clark, Phil. of Wealth*, p. 13.

“If labor was a talisman which turned everything to gold, the slag of the blast-furnace should have value as well as iron. The difference between them is their utility, not in their origin. A chance chemical discovery might reveal uses for the slags in their present form, and they would become wealth; but they would have been a product of labor before they became wealth as well as after.” — *J. B. Clark*.

“Labor imparts want-satisfying powers, or utilities to natural agents. These utilities are of four kinds, and may be arranged

in four corresponding classes; namely, elementary utility, form utility, place utility, and time utility."— *Ibid.*

### Questions.

1. What is the difference between labor and play?
2. Do you ever call the work of horses, labor?
3. When you buy a book, how many forms of labor does the price represent?
4. When you accidently destroy or lose some form of wealth, you are consoled by the fact that to reproduce it, labor will be given something to do. Wherein is the fallacy?
5. The destruction of wealth by strikers is a detriment to themselves. Explain.
6. Can you ever say that the burning of a city is an economic good?
7. Do you class the following laborers as productive or unproductive: An actor? a soldier? a clergyman? an artist? an organist? officers of government? a confectioner? a maker of an article for which there is no use?
8. Make a classification of laborers under our present industrial system. What is the basis of your classification? Would you class the capitalist as a laborer? The *entrepreneur*?
9. Do you observe any distinction between the cost of labor and the cost of production?
10. Does the carpenter compete with the watchmaker? The brick-layer with the stone-mason? The teacher who is a university graduate with the teacher who is not a graduate?

### C. Capital.

#### Definition.

Capital is that part of a person's stock from which he expects to derive an income.— *Adam Smith.*

Capital is that part of a person's wealth by which he wins his livelihood.— *Marshall.*

Capital is saved wealth devoted to reproductive employment.— *J. S. Mill.*

Capital is an article of wealth, the result of human exertion, employed in the production or distribution of wealth.— *Senior.*

Capital is a complex of means of obtaining a livelihood made by man; that is, a complex of goods which had their origin in a previous process of production and as destined not for immediate consumption for the sake of enjoyment, but the acquisition of more goods.— *Bohm-Bawerk*.

The capital of a community is that part of its wealth (excluding land and natural agents, considered as unimproved) which is devoted to the production of wealth.— *F. A. Walker*.

Only that part of wealth is capital which the possessor *intends* to use for the production of other wealth.— *Laughlin*.

### Kinds of Capital Suggested by Marshall.

1. Trade Capital.— Consisting of those external goods which a person uses in his trade, either (1) to be sold for money or (2) to produce things to be sold for money.

2. Personal Capital.— Consisting of those energies, faculties, and habits which directly contribute to making people industrially efficient, and secondly all their business connections and associations.

3. Social Capital.— Consisting of those things made by man, by which the society in question obtains its livelihood.

(a). Consumption Capital.— Consisting of those goods which satisfy wants directly; e. g., food, houses, clothes, etc.

(b.) Auxiliary Capital.— Consisting of all goods that aid labor in production; e. g., tools, docks, machines, etc.

4. Circulating Capital.— That which fulfills the whole of its office in the production in which it is engaged, by a single use.

5. Fixed Capital.— That which exists in a durable shape and the return to which is spread over a period of corresponding duration.

6. Specialized Capital.— That which is designed for use in one trade and can not easily be diverted to another.

Query: How many *distinct* forms of capital do you consider are named in the above classification?

### Walker's Forms of Capital.

(1). Subsistence. (2). Tools. (3) Materials.

**Gide's Division.**

1. Productive — that which really serves to produce new wealth.

2. Lucrative — that which merely yields an income to its owner.

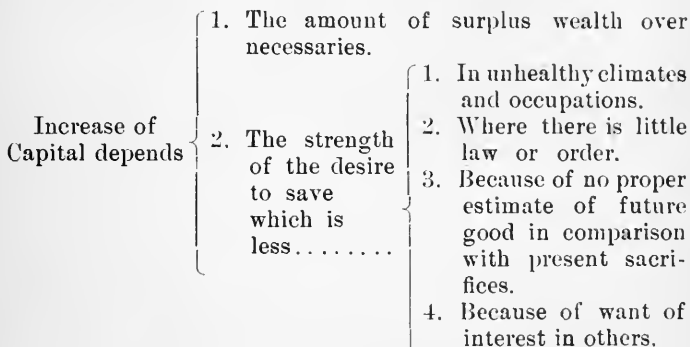
Capital involves two fundamental concepts.

1. Productiveness. 2. Prospectiveness.

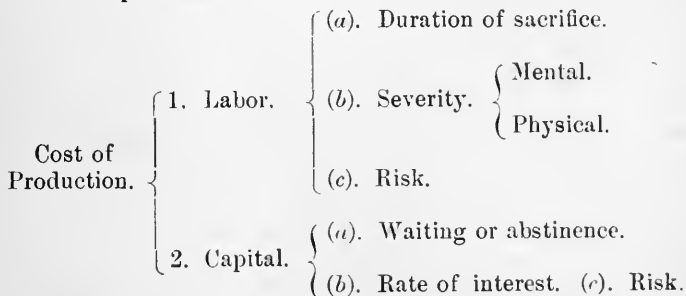
**Increase of Capital Depends on**

1. The amount which can be saved.
2. The disposition to save.

Law of increase of Capital illustrated (*Laughlin*).



**Labor and Capital Related to Cost of Production.**



Query: How will nature (as we have heretofore considered it) affect Cost of Production?

**Questions.**

1. Distinguish carefully between wealth, capital, and money.
2. What is the distinction between *actual* capital and *potential* capital? Has the distinction any value in a classification of capital?
3. Consider whether or not the following should be included in capital: The original and acquired powers of labor; credit; unsold stock in the hands of the merchant; bric-a-brac in a home; original properties of the soil; rare coins in your possession; investment in government securities; railway shares; stocks of wine; wheat; munitions of war; money in a bank; a suit of Sunday clothes; a piano.
4. Does the economic nature of capital depend wholly upon the intention of its owner? Is all capital necessarily wealth?
5. Does a national loan add to the capital of a country?
6. Discuss the effects of a large expenditure of money for military purposes upon the operations of labor and capital.
7. Show that there is no assignable limit to the employment of capital in bettering the conditions of the members of a community.
8. Inquire how far, or in what cases, or in what sense, it may be said that a common dwelling-house, a hotel, a school-house, a police-station, a theater, and a fortification, constitute part of the capital of a country.
9. Can wealth perform the functions of capital without being partially or wholly consumed?
10. Is a demand for commodities always a demand for labor? Is it at any time?
11. A college undergraduate, with the applause of shop-keepers, bought twenty waistcoats under the plea that he was doing good to trade. Examine the economical soundness of his act.
12. Which is the better method of defraying war expenditure, by loans, or by increased taxation? Why?
13. Classify the following under (1) fixed, or (2) circulating capital: diamonds in a jeweler's shop, a crop of corn, a locomotive, a greenhouse, woods, nails, money, an ingot of gold, coal, a suit of clothes, a box of cigars, U. S. bonds.



14. Are Bradley-Martin balls economically beneficial to industrial society?
15. Which is the better quality to possess: (1) ability to earn, or (2) disposition to save?
16. Do the savings of a miser increase capital?
17. What items of capital appear in the annual inventory of a shoe factory?
18. Henry George said: "If the articles of actual wealth existing at any time in a given community were presented *in situ* to a dozen intelligent men who had never read a line of political economy, it is doubtful if they would differ in respect to a single item as to whether it should be accounted capital or not." Comment.
19. Marshall says: "Thus oats are capital if they are to be given to a cart-horse, but not if they are to be given to a race horse." Do economists universally accept this distinction?
20. Is labor in any sense instinctive? Is the disposition to save?
21. How does a herd or a flock represent saving?

#### Illustrative Quotations.

"At every step of its progress, capital follows one law. It arises solely out of saving. It stands always for self-denial and abstinence." — *F. A. Walker, Pol. Econ., p. 66.*

"Some employment is indeed derived from the consumption of the necessaries of life which are included under capital; but they are counted as capital because of the work for the future which they enable people to do, and not on account of the present pleasure which they afford. Thus capital is said to be the result of saving, of a sacrifice of present enjoyments for the sake of the future; and it is chiefly for this reason that economists exclude from capital in its pure economic sense those three gifts of nature which have not been made by man, though they include the value of the improvements which man has added to the natural resources of the land." — *Marshall, Prin. of Econ., p. 125.*

"It will be observed that I have assumed that the laborers are always subsisted from capital; and this is obviously the fact, though the capital need not necessarily be furnished by a person called a capitalist." — *J. S. Mill, Prin. Econ., p. 69.*

“From a logical point of view it is impossible to conceive how a purely negative act, a simple abstention, can *produce* anything. When wealth is said to have been created by saving, the only meaning is, that if this wealth had been consumed as soon as it was born, it would not be existing still. That is obvious. But according to such reasoning we should have to allow that an object is produced each time we refrain from using it; and *non-production* would have to be reckoned as one of the causes of production—a curiosity in logic, to be sure. If a child asked whence chickens came, and was told that to produce chickens he must refrain from eating eggs, we should be justified in regarding the answer as excellent advice, but as an exceedingly absurd explanation. We are not a whit better satisfied by the train of reasoning which makes *saving* the original cause of the formation of capital.”—*Gide, Pol. Econ., p. 139.*

“All accumulation involves a sacrifice of a present, for the sake of a future, good.” This is the fundamental motive underlying the effective desire of accumulation, and is far more important than any other. It is, in short, the test of civilization. In order to induce the laboring-classes to improve their condition and to save capital, it is absolutely necessary to excite in them (by education or religion) a belief in a future gain greater than the present sacrifice. It is, to be sure, the whole problem of creating character, and belongs to sociology and ethics rather than to political economy.—*Laughlin's Nill, p. 122.*

“Popular speech is correct in giving the name of capital to *acquired capacities*, to the knowledge needed for certain professions and to education in general. Obviously, we must beware of classing as capital those personal qualities and faculties which are only one of the terms of human activity; for that would confound labor with capital. But as soon as man's natural faculties have been modified and worked on so as to take the shape of acquired knowledge, they can then be termed productive capital; for in that case they are the product of nature and of labor, and clearly serve in the production of new wealth.”—*Gide, Pol. Econ., p. 135.*

“The distinction between capital and non-capital does not lie in the kind of commodities, but in the mind of the capitalist—in his will to employ them for one purpose rather than another.”—*J. S. Mill, Prin. Ec., p. 68.*

“If people regarded future pleasures as equally desirable with pleasures of equal amount at the present time, they would probably endeavor to distribute their pleasures evenly throughout their lives. But in fact human nature is so constituted that in estimating the ‘present value’ of a future pleasure most people generally make a second deduction from its future value, in the form of which we may call a ‘discount,’ that increases with the period for which the pleasure is deferred. One will reckon a distant pleasure at nearly the same value which it would have for him if it were present; while another who has less power of realizing the future, less patience and self-control, will care comparatively little for any pleasure that is not at hand.” — *Marshall. Prin. Econ., p. 178.*

### Readings.

- Gide's Pol. Econ., pp. 93-140.  
 Walker's Pol. Econ., Adv. Course, pp. 44-74.  
 Laughlin's Pol. Econ., pp. 11-53.  
 Cairnes' Pol. Econ., pp. 205-210.  
 J. S. Mill's Prin. Pol. Econ., *Laughlin*, pp. 53-153.  
 Davenport's Ec. Theo., pp. 119-42; 50-67.

## PRODUCTION IN RELATION TO SOCIAL CONDITIONS.

### Examination of the Organic Theory of Society.

1. How far is society differentiated that we may find organs and functions?
2. Primitive society compared with lower forms of animal life; e. g., the amoeba.
3. May we view economic and industrial conditions as the product of social evolution? Illustrate this view by a study of the social development from patriarchal conditions to our present complex state.

### Phenomena of Social Production are (*Gide*)

- I. Association.
- II. Division of Labor.
- III. Exchange.
- IV. Credit.

#### I. Association.

1. For what purpose indispensable?
2. Association of labor illustrated.
3. Association of capital illustrated.
4. How do communistic conditions affect association?

5. How do socialistic conditions (state interference) affect association?
6. Association studied from the standpoint of organized industry on a large scale.
  - A. Advantages of large production.
    1. Extends the limit of individual strength and capacity.
    2. Economy in labor in making Division of Labor possible.
    3. Economy of space or situation.
    4. Economy in natural agents.
    5. Economy in capital.
    6. Economy in product (resulting from the economies *supra*,) giving a cheaper and better product.
  - B. Disadvantages of large production.
    1. Supplanting of *independent* labor by *hired* employment.
    2. Disappearance of middle-men.
    3. May lead to monopoly prices by destroying competition.
    4. Calls for more legislation.
    5. Lessens individual enterprise.
    6. May cause the State to become a *factor* in production. *A priori* this can not be considered a disadvantage. It is a question of comparative services for the public good.

### Questions.

1. Compare the development of economic conditions with the development of political conditions. Do they correspond, stage by stage? In what sense?
2. Do you consider that the present system of production on a large scale is a natural growth? What will be the next stage in this industrial evolution?
3. Could the State by owning and controlling the means or instruments of production give an increased wealth-product to be distributed! How?
4. Is it practicable or desirable that large production should extend to Agriculture? What is the present tendency?
5. As the United States becomes more densely populated, what effect will it have on property holdings in land?
6. Does the number of laws increase or decrease the more complex society becomes? Why?

**II. Division of Labor.**

1. Development of as seen in
  - a. Trades. b. Workshops. c. Professions.
2. Necessary conditions of
  - a. Production on a large scale.
    1. Large investments of capital in machinery, buildings, etc.
    2. Large number of laborers of different grades under one general management.
  - b. Production must be continuous.
    1. Character of the labor; e. g., agriculture.
    2. An extensive market.
  - c. Great executive ability.
    1. Superintendence of the mechanical processes.
    2. General management of purchases and sales, credits, collections, etc.
    3. Close study of markets, competition, etc.
3. Division of labor in relation to production.
  - a. Advantages.
    1. Products are multiplied and cheapened by
      - a. Economies of time, b. labor, c. capital.
    2. Products are increased in variety.
    3. Certainty of steady employment of laborers.
    4. Proper balance between different branches of industry.
    5. Develops dexterity in the laborer.
    6. Gives latitude to individual capacities and aptitudes and develops mastership.
    7. Diminishes the "pain element" of labor, making labor less arduous.
    8. Economy of time in, a. Apprenticeship. b. "Setting to work" in changing labors.
    9. Develops an *esprit de corps*.
    10. Gives play to invention.
  - b. Disadvantages.
    1. Makes the laborer's work mechanical.
 

"It is a sad confession for a man that during his whole life he has constructed nothing more than the eighteenth part of a pin."
    2. Makes the laborer incapable to do anything well except the fixed and special operation.

3. Danger of impairment of the health and vigor of the laborer.
4. Involves the loss of some independence and self respect.
5. Dwarfs the laborer's faculties.
6. A financial failure of an establishment of large production involves the fate of great numbers of workmen.

### Questions.

1. Describe any large manufacturing establishment you have ever visited, and point out the Division of Labor found therein.
2. Do you think that the establishment of a large factory in your town is productive of more good than evil? Give reason.
3. What is the character of Factory Acts that are generally found upon our Statutes?
4. Illustrate division of labor among, *a.* doctors, *b.* lawyers, *c.* bookkeepers. Do *any* disadvantages suggest themselves to you?
5. Would a co-operative system of society affect division of labor to any extent?

### Illustrative Quotations.

“This division of labor first dwelt on by political economists as a social phenomenon, and thereupon recognized by biologists as a phenomenon of living bodies which they called the ‘physiological division of labor,’ is that which in the society, as in the animal, makes it a living whole. Scarcely can I emphasize enough the truth that in respect of this fundamental trait, a social organism and an individual organism are entirely alike.”  
— *Herbert Spencer, Prin. Soc., Vol. I, p. 440.*

“Now, are there nothing but advantages in this evolution towards large production? No one but the most sanguine of optimists could think so. Were this evolution brought about solely by the means of perfect association, by the progressive substitution of associated for isolated labor, we might perhaps be able to see in it nothing but advantages. Even then, however, if the result of the development of collective organization was to weaken and relax the stimulus of individual initiative and responsibility, like springs which rust for want of use; we might justly express some fear, or at any rate some regret.” — *Gide, Pol. Econ., p. 153.*

“It is found that the productive power of labor is increased by carrying the separation further and further; by breaking down more and more every process of industry into parts, so that each laborer shall confine himself to an even smaller number of simple operations. And thus in time, arise those remarkable cases of what is called the division of labor.”—*J. S. Mill, Prin. Econ., p. 103.*

“The business of making a pin is divided into about eighteen distinct operations. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business; to whiten the pins is another; it is even a trade by itself to put them into paper.”—*Adam Smith.*

### Readings.

- Laughlin's Mill. Prin. Pol. Econ., pp. 99-111.  
 Gide's Pol. Econ., pp. 145-165.  
 Walker's Adv. Course, pp. 56-61.  
 Bastiat. Ec. Harm., p. 211.  
 Patton. Pol. Econ., pp. 50-56  
 Smith's Wealth of Nations. Bk. 1, Chap. IV.

## THE QUESTION OF INSUFFICIENCY IN FUTURE PRODUCTION.

### The Growth of Numbers.

#### Premises.

1. Land is fixed in amount and is not capable of increase.
2. The production from land has a limit; *i. e.*, it is affected by the Law of Diminishing Returns.
3. Other conditions being equal, population or growth in numbers has no assignable limit.

Query. Will the time ever come when population will press upon food production?

Counteracting forces are two in number:

#### I. Those causes retarding the growth of population.

1. War, famine, pestilence.
2. Deaths by
  - a.* Natural causes. *b.* Suicide. *c.* Accidents.
3. Legislative restrictions.
4. Moral and prudential restraints. (Altruistic.)

5. Physiological causes.
  6. Public opinion and spirit of the age.
  7. Standard of comforts.
  8. Luxuries.
  9. Immorality.
- II. Those causes increasing the efficiency of production.
1. Improved machinery.
  2. Increased intelligence.
  3. Irrigation.
  4. New fertilizers.
  5. Intensive cultivation.
  6. New economic wants enlarges the field of labor.
  7. Better roads and means of communication.

**Law of Population as enunciated by Malthus.**

1. Essay on the Principles of Population, by T. R. Malthus, first edition, 1798.
2. His famous formula affirmed that "population tends to increase in a geometrical progression, whilst the means of subsistence can only increase in an arithmetical progression."  
*Progression of Population*; 1, 2, 4, 8, 16, 32, 64, 128, etc.  
*Progression of Production*; 1, 2, 3, 4, 5, 6, 7, 8, etc.
3. His reasoning consists of three parts:

*a.* The Supply of Labor.

He shows that every people of whose history we have a trustworthy record has been so prolific that the growth of numbers would have been rapid and continuous, if it had not been checked by scarcity of the necessaries of life, by disease, by war, by infanticide, or by voluntary restraint.

*b.* The Demand for Labor.

He shows that up to the time he wrote, no country had been able to obtain an abundant supply of the necessaries of life, after its territory had become thickly populated.

*c.* The Conclusion.

He claims that what had been in the past was likely to be in the future, and that population would be checked by poverty or money, unless it were checked by voluntary restraint.



**Objections to the Malthusian doctrine.**

1. Increase in numbers increases productive power.—*A. A. Everett (1823)*.
2. Human fertility varies inversely with numbers.—*M. T. Sadler (1830)*.
3. Material improvement of the human race is a proof that man can produce more than he consumes.—*A. Alison (1840)*.
4. Increased demand upon the nervous system causes a diminution of fertility.—*Spencer (1852)*.
5. Reason, as well as facts, are against Malthus.—*R. E. Thompson (1875)*.
6. Tendency is for subsistence to outstrip the increase of population.—*N. W. Senior*.
7. J. S. Mill held the tendency pointed out by Malthus is the constant element in the problem, and all others are inconstant and variable.
8. Malthus is also opposed by Carey, Bowen, and Henry George in America.

**Illustrative Quotations.**

“It would seem, then, that what has been ambitiously called Malthus’ theory of population, instead of being a great discovery, as some have represented it, or a poisonous novelty, as others have considered it, is no more than a formal enunciation of obvious, though sometimes neglected, facts. The pretentious language often applied to it by economists is objectionable, as being apt to make us forget that the whole subject with which it deals is as yet very imperfectly understood—the causes which modify the force of the sexual instinct, and those which lead to variations in fecundity, still awaiting a complete investigation.

“Malthus and his followers appear to have greatly exaggerated both the magnitude and the urgency of the dangers to which they pointed. Because a force exists, capable, if unchecked, of producing certain results, it does not follow these results as imminent or even possible in the sphere of experience.”—*J. K. Ingram, Hist. Pol. Econ., p. 117.*

“The rate of increase of population in civilized countries may be reckoned as about 1 per cent (more exactly 9 out of 1000), which corresponds to a period of doubling in 72 years, and is

thus far inferior to that predicted by Malthus. Thus the yearly increase for Germany, England, and Russia is respectively 9, 10, and 13 per 1000; but it is less for some countries, especially for France, which is far in the rear.

“Yet, even at this apparently moderate rate of 1 per cent, the increase in population would be literally awful, and would lead to almost inconceivable results. Granting the population of the world (now calculated at 1,500,000,000) were to increase 1 per cent per annum, it would reach 3,000,000,000 by the middle of the next century, and 48,000,000,000 about the year 2240.” — *Gide, Pol. Econ., p. 322.*

“In the animal and vegetable world the growth of numbers is governed simply by the tendency of individuals to propagate their species on the one hand, and on the other hand by the struggle for life which thins out vast numbers of the young before they arrive at maturity. In the human race alone the conflict of these two opposing forces is complicated by other influences. On the one hand regard for the future induces many individuals to control their natural impulses; sometimes with the purpose of worthily discharging their duties as parents; sometimes, as for instance at Rome under the Empire, for mean motives. And on the other hand, society exercises pressure on the individual by religious, moral, and legal sanctions, sometimes with the object of quickening, and sometimes with that of retarding, the growth of population.” — *Marshall, Prin. Ec., p. 229.*

“One should aim less at augmenting the population than at increasing the national income, for the condition of greater comfort which is derived from a good income is preferable to that in which a population exceeds its income, and is ever in urgent need of the means of subsistence.” — *Francis Quesnay.*

“As the *fertility of any species* appears usually to vary in inverse ratio to the *development of the individuals of the species* (for the lower species increase in infinitely larger proportions than do the higher animals, and man in particular,) — as in the human species itself the lower class have generally more children than the picked classes, — and further, as there appears to be a physiological law which would seem to establish an antagonism between generative activity and cerebral activity, we may hope that the fecundity of the human species is destined to slacken

progressively in proportion to the intellectual and moral development of the individuals that compose it." — *Spencer's Principle. Gide, Pol. Econ., p. 323.*

"But further, there can be no doubt that fecundity is diminished by any great nervous strain. Mr. Galton has indeed proved that those who do high mental work are *not* as a class unprolific. But then as a class they have much more than the average of constitutional and nervous strength. And it seems certain that given the natural strength of the parents their expectation of a large family is diminished by a great increase of mental strain. How far this tendency may reach is under dispute; but there are some who think it so strong as to make it probable that the progress of civilization will of itself hold the growth of population completely in check." — *Marshall, Prin. Ec., p. 239.*

"The general misery of mankind is a fact that can be accounted for upon only one of two positions, either that there is a tendency in population to increase faster than capital, or that capital has by some means been prevented from increasing as fast as it has a tendency to increase. However slow the increase of population, provided that of capital is still slower, wages will be reduced so low that a portion of the population will regularly die of want." — *James Mill.*

"Elkanah Watson in 1815 estimated the population of the United States for each decade until 1900. In 1820 he was only about 8,000 out of the way; in 1830 about 32,000; in 1840 about the same; in 1850 something like 630,100; and in 1860 over 310,000. Then he took a mighty fall, and was millions too much in 1870 and 1880, closing nearly 15,000,000 too high in 1890, while his estimate for 1900 of 100,235,985 will probably exceed the actual amount by 25,000,000." — *Robt. Porter, Supt. Census, 1890.*

The human family living on earth to-day consists of about 1,450,000,000 souls; not less, probably more. These are distributed literally all over the earth's surface, there being no considerable spot on the globe where man has not found a foothold. In Asia, the so-called "cradle of the human race," there are now about 800,000,000 people densely crowded, on an average of about 120 to every square mile. In Europe there are 320,-

000,000, averaging 100 to the square mile, not so crowded as Asia, but everywhere dense and in many places over populated. In Africa there are, approximately, 210,000,000, and in the Americas—North, South, and Central—110,000,000; these latter, of course, relatively thinly scattered over broad areas. On the islands, large and small, there are probably 10,000,000 more. The extremes of the blacks and whites are as five to three; the remaining 700,000,000 intermediate brown, yellow, and tawny in color. Of the entire race, 500,000,000 are well clothed—that is, they wear garments of some kind that will cover their nakedness; 250,000,000 habitually go naked; 700,000,000 cover only the middle part of the body; 500,000,000 live in houses; 700,000,000 in huts and caves, the remaining 250,000,000 virtually having no place to lay their heads.

### Readings.

- Marshall. Prin. Ec., Vol. I, Chapters IV-V.  
 Gide. Pol. Econ., pp. 320-323.  
 Herbert Spencer's Prin. of Biology, Part VI.  
 Patrick Geddes' "The Evolution of Sex."  
 R. E. Thompson. El. Pol. Econ., Chap. IV.  
 Walker. Pol. Econ., Adv. Course, Part V, Chap. I.

### THE LAW OF DIMINISHING RETURNS.

Principle stated: An increase in the capital and labor applied in the cultivation of land causes *in general* a less than proportionate increase in the amount of produce raised, unless it happens to coincide with an improvement in the arts of agriculture; or

After a certain point in the cultivation of land, doubling the dose of labor and capital will not give a proportionate increase in product.

1. Marginal Dose.—That which only just remunerates the cultivator.
  2. Marginal Return.—The return which the marginal dose gives.
- Query: How would you define the Margin of Cultivation,

## THE LAW OF DIMINISHING RETURNS IN RELATION TO OTHER INDUSTRIES.

1. Fisheries.
2. Mines.
  1. In what way does the Law of Diminishing Returns affect the above industries? In what respects differently than in agriculture?
3. Ground-rents.
4. Manufactures.

### Questions.

1. Does the means of subsistence increase in an arithmetical progression? Is this too favorable a supposition?
2. What are some of the most potent checks on the growth of population? Which do you deem the most potent to-day?
3. Does the increased facility of immigration nullify the Malthusian doctrine? Why?
4. Trace the connection between the law of Malthus and the law of diminishing return.
5. How does the increasing productiveness of manufactures affect diminishing returns on those materials entering into manufactured product?
6. Why do you accept the law of diminishing returns without debate?
7. Read Genesis 13 : 6, and state what economic principle is found.
8. "Thus we need not suppose when the return to extra labor and capital has begun to diminish, it will always continue to do so." Why not?
9. Is there a law of increasing Returns?
10. In the absence of any special cause to the contrary, the growth of population and wealth will make the poorer soils gain on the richer." Explain.

### Readings.

- Marshall, Prin. of Ec., Vol. I. pp. 206-227.  
 Mill, Prin. Pol. Econ. Laughlin. Chapters 9 and 10.  
 Gide. Pol. Econ., pp. 323-333.  
 Walker. Adv. Course, pp. 36-43.

**The Subject of Over-Production.**

1. -There can not be an excess in production if the increase operates simultaneously and proportionately in all branches of production. Why?

2. Fluctuations in production.

Causes.

(1). Failure of the producers to meet promptly and precisely the demands of the consumers.

(2). Inability to measure the demands of the future.

(3). Excess of production of certain commodities, due to temporary high profits. (Profits tend toward an equilibrium. How low can they fall?)

(4). Misdirection of productive forces.

(5). Confidence destroyed, causing a retrenchment of capital and labor.

3. Crisis.

(1). A crisis is a disturbance of the equilibrium between the forces of production and consumption.

(2). Periodicity of Crisis.

(3). Causes.

*a.* Glut or scarcity of commodities.

*b.* Glut or dearth of capital.

*c.* Excess or dearth of coin.

*d.* Speculation and over-confidence in the future.

*Business is not gambling.*

(4). A study of crises in the United States. Principal dates: 1837, 1857, 1873, 1893. (Consult Histories of the United States and summarize the concrete causes.)

4. Is there reason to fear too much production?

(1). J. B. Say's "Theory of the Law of Markets." "The more abundant and varied products are, the more markets do they find."

(2). The question of machinery and further invention?

*a.* Does machinery antagonize the laborer's interests?

**The Question of Trusts.**

1. Are they to be viewed as the outgrowth of evolutionary forces; *i. e.*, do they mark a stage in economic progress that has had a natural development?

2. Explanation of the query.

Accepting the Historical theory of the origin of society, we may mark off successive planes of economic development from primitive conditions to our present complex state; *e. g.*,

- (1). Primitive society, when everyone produces or attempts to produce for himself all that he needs.
- (2). A slight differentiation but with no division of labor as yet. Production on a small scale.
- (3). A still more differentiated industrial society, division of labor playing a more important part due to larger production.
- (4). Successive developments and changes until production on a large scale is reached, with well defined divisions of labor.
- (5). Centralization of labor and capital of the large producers, leading to monopolies.
- (6). What next?

Query: If monopolies were not actuated with selfish motives, would there be more benefits than evils resulting from them?

**Monopolies Classified** — (*Ely*).

1. Natural.
2. Artificial.
3. Public.
4. Private.

“Monopolies with respect to ownership and management may be divided into two classes, public and private. But monopolies may be divided into two different classes from another standpoint. Certain pursuits are monopolies on account of their own inherent qualities. These we call natural monopolies, legislation neither makes them monopolies, nor can it prevent them from becoming monopolies. All that legislation can do is to recognize the fact that they are and must remain mo-

monopolies, and to act upon it. There are other pursuits which are made monopolies by legislation, and these we call artificial monopolies."—*Problems of To-day*, Ely, p. 108.

"If competition does not necessarily lead to cheapness, it follows, *a contrario*, that monopoly does not necessarily produce dearness. It has the disadvantage, it is true, of allowing the producer who is invested with this particular monopoly to realize exceptional profits, but it may enable him, also, to reduce his prices, through economy in his general expenses, thus a trifling disadvantage would be compensated by a great advantage. The equalization of incomes is certainly a good thing to aim at, but economy in production is better.—*Gide, Pol. Econ.*, p. 69.

(Read chapters XVII–XX of R. T. Ely's "Problems of To-Day.")

#### Readings.

Walker's *Pol. Econ. Adv. Course*, pp. 171–186.

Gide's *Pol. Econ.* pp. 68–71; 334–356.

Mill's *Pol. Econ.*, *Laughlin*, Book IV.

Davenport's "Outlines of Econ. Theo.," Chap. XIII.

#### SELECTED THEMES FOR WRITTEN WORK.

1. The Aim and Scope of Political Economy.
2. Schools of Political Economy and the Principles of Each.
3. The Necessary Elements in the Definition of Wealth.
4. The Factors that have made the United States a Wealth-Producing Country.
5. Improvement in Machinery in relation to the Laborer's Welfare.
6. A study of Capitalists and how they became such.
7. Cost of Production of Wheat.
8. The Growth of Cities in Relation to Economic Causes.
9. Would the U. S. Government be Justified in Building National Roads?
10. The part the U. S. has played in Expenditures for Public Improvement.
11. Are there Natural Laws in Political Economy?



12. Pain as a Factor of Labor.
13. The Meaning of Saving.
14. Effects Produced on Value by Competition.
15. Objections to the "labor-theory" of Value.
16. Causes determining the Efficiency of Labor.
17. Is Poverty a necessary Evil?
18. Physical Causes as Economic Forces.
19. The Influence of the Invention of Printing on Industry. *b.*  
Influence of the Reformation. *c.* Influence of the Discovery of the New World.
20. The Centralization of Capital. Can it be Controlled?
21. The Origin of Large Business Undertakings.
22. Induction and Deduction are Mutually Dependent.
23. Wants in Relation to Activities.
24. What is a Market?
25. Ancient Castes and Modern Classes.
26. The Nature, Origin, and Measure of Value.
27. The Exact Economic Meaning of Supply and Demand.
28. Over-Production.
29. Cost of Production of Straw and Grain. and the variance in Values.

# EXCHANGE.

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## A Study of Exchange under Primitive Conditions.

1. Barter.
  - a. Disadvantages of barter illustrated.
  - b. A medium of exchange substituted.
  - c. Introduction of forms of credit.

## A Study of Exchange under our Present Industrial System.

1. Trace a bushel of wheat from the farm to the bread-consumer and note the possible exchanges.

## Advantage of Exchange.

1. The utilization of a large quantity of wealth which would otherwise remain unused.
2. The utilization of productive abilities which would otherwise remain idle.
3. Simplifies production and affords continuous labor in the production of the same commodity.

## How Exchange is Facilitated.

1. By *middlemen*, or traders.
2. By means of communication and transport.
3. By the invention of a medium of exchange and a common denominator of values.
4. By forms of credit.
  - A. Functions of middlemen or traders.
    1. Bring the producer and consumer together, saving time to each in finding the other, respectively.
    2. The quantity offered by the producer and that demanded by the consumer tends towards an equilibrium.
    3. Enables the disposition of the commodity to be effected without loss of time; *i. e.*, between the manufacturer of the product and the acquisition by the consumer.

**B. Conditions affecting transportation.**

1. Distance.
2. The kind or nature of the commodity.
3. Character or means of transportation and the natural interferences.

These obstacles are overcome by

- (1) Macadamized roads.
- (2) Bridges and tunnels.
- (3) Improved means of vehicular carriage on land and water.
- (4) The utilization of nature's forces.

**C. The function of money.—(Jevons.)**

1. A common measure or common denominator of value.
2. A medium of exchange.
3. A standard of value, or as Walker terms it, "a standard of deferred payments."

**D. The functions of credit.**

- (1) The utilizing of existing capital to the best possible advantage, for the reason that a large number of people can not use their own capital.
  - a. Those who have too much.
  - b. Those who have too little.
  - c. Those who on account of age, sex, or condition of life can not employ their capital.
- (2) The formation of new capital.
- (3) Gives an impetus to saving and increases the disposition to save.
- (4) Saves the use of metallic money.

**Questions.**

1. Discuss the economic function of traveling men, or "drummers."
2. Each person in the process of an exchange considers that he receives more than he gives. Is there any sophistry in this assertion?
3. What causes are at work to do away with the shop-keepers?
4. What disadvantages arise from too many traders?
5. What is the economic function of a city market? Of a State Fair?
6. "Exchange is the giving up of a comparatively superfluous

thing for one that is comparatively necessary." Examine the meaning of this definition.

### Of Money.

1. The necessity of a common measure.
2. Primitive forms of money.
  - (1) Leather, wampum, cattle, skins and furs, rice, salt, silk, wheat, copper, iron, etc., etc.
3. Requisites for a perfect money.
  - (1) Enumerated by Gide.
    - a.* easiness of transport.
    - b.* Identity of quality.
    - c.* Difficulty of counterfeiting.
    - d.* Perfect divisibility.
    - e.* Indefinite durability.
  - (2) Enumerated by Jevons.
    - a.* Value.
    - b.* Portability.
    - c.* Divisibility.
    - d.* Indestructibility.
    - e.* Homogeneity.
    - f.* Stability of value.
    - g.* Cognizability.
  - (3) Enumerated by Parsons.
    - a.* General acceptability.
    - b.* Limitation of volume
    - c.* Steadiness of value.
    - d.* Portability.
    - e.* Ease of keeping.
    - f.* Ease of concealment.
    - g.* Difficulty of counterfeiting.
    - h.* Durability.
    - i.* Divisibility.
    - j.* Elasticity.
    - k.* Uniformity.
    - l.* Cheapness.
4. Application of these essentials to different commodities; *e. g.*, gold, silver, iron, paper, corn, labor, etc.
5. The Law of Multiple Standard.

“A long contract, like a government or a railway bond, ought not to be settled by paying back the amount of gold or silver borrowed, but by giving the lender a sum which would, at the time of payment, purchase the amount of commodities for which the money loaned could have been exchanged at the time that it passed from the lender to the borrower.”

The Law of Multiple Standard takes into consideration the *purchasing power* of money, no matter whether a greater or less *amount* of money is to be returned.

Newcomb's "Principles of Political Economy," p. 211, shows what the actual working of this system is by the following table, exhibiting the prices of certain necessities of life in New York markets.

ITEMS	1876	1880	1884
1 bbl. corn-meal.....	\$ 3 68	\$ 2 80	\$ 3 24
2 bbls. flour.....	12 42	11 76	11 18
1,000 brick.....	7 72	7 78	7 59
500 feet lumber.....	7 65	7 40	8 53
1 ton coal.....	5 53	3 47	4 70
20 lbs. cotton.....	2 58	2 30	2 10
$\frac{1}{2}$ ton hay.....	8 90	7 52	9 16
2 cwt. ice.....	34	30	23
1 cwt. pig-iron.....	1 34	2 06	1 28
2 pair shoes.....	5 60	4 68	4 80
100 lbs. beef.....	9 00	8 80	9 90
100 lbs. pork.....	10 60	6 20	7 90
30 lbs. butter.....	7 20	5 10	5 40
10 doz. eggs.....	2 80	1 60	2 10
10 bu. potatoes.....	6 12	7 50	6 75
40 lbs. rice.....	2 84	2 92	2 40
1 bu. salt.....	36	30	39
100 lbs. sugar.....	10 70	9 00	7 10
1 cord wood.....	2 98	2 98	3 58
10 lbs. wool.....	3 30	3 80	3 00
Total (1 "multiple unit").....	\$111 66	\$98 27	\$101 33

### The Claims of the Multiple Standard.

1. The moral and economic need of a dollar of unchanging power of purchase.
2. The unsteadiness of gold and silver.

3. The steadiness of a composite commodity standard.
4. The practicability of keeping the dollar in harmony with the multiple commodity standard by careful regulation of the money volume.
5. The publicity, definiteness, and importance of the standard and its operation would constitute a strong protection against fraud.

### Readings.

"Rational Money," by *Frank Parsons*, pp. 124-160. C. F. Taylor, Publisher, Phila., 25c. *Guide Pol. Econ.*, pp. 84-88.

### Gresham's Law.

"In every country where two legal moneys are in circulation, the bad money always drives out the good."

Circulation of good money ceases by

1. Hoarding.
2. Selling by weight.
3. Payments to the foreigner.

### Selling by Weight Illustrated.

"In 1820 the market ratio of gold in a dollar ( $24\frac{3}{4}$ ) grains would exchange for 15.7 times as many grains of silver in the market, in the form of bullion; while at the mint, in the form of coin, it would exchange for only 15 times as many grains of silver. A broker having 1,000 grains of gold dollars could buy with them in the market silver bullion enough ( $1,000 \times 15.7$  grains) to have coined, when presented at the mint, (1,000 dollars in silver pieces, and yet have left over as a profit by the operation 700 grains of silver. So long as this can be done, silver (the cheapest money) will be presented at the mint, and gold (the dearest money) will become an article of merchandise too valuable to be used as money when the cheaper silver is legal as good."—*Laughlin's Mill*, p. 319.

### Gresham's Law Applies to the Following Cases:

1. When a worn money circulates with a newly coined money.
2. When a depreciated paper money circulates with a metallic money.
3. When a light money is in circulation with a right money, or a right money is in circulation with a heavy money.

4. In general when two moneys are governed by the same rules and regulations, and there is a variance between the market or commercial ratio and the legal or mint ratio.

### **Bimetallism Defined.**

1. Bimetallism is a system of coinage in which two metals are coined, subject to the same governmental regulations and restrictions.
2. Claims of the Bimetallist.
  - a. The adoption of the single gold standard involves the demonetization of silver.
  - b. If all countries took gold as their standard, there is fear that the supply would not be sufficient.
  - c. The variations in price are more to be feared with a single standard of values than with a double standard.

### **Coinage Defined.**

*Coinage* is the act of assaying, subdividing, and stamping a metal intended to be used as money.

A *coin* is an ingot of metal stamped by the government certifying its weight and fineness.

*Free Coinage* is the coinage of a metal by the government, the bullion being owned by an individual and coined on private account.

Query: Do we have free coinage of gold to-day?

The term "16 to 1" expresses the value of gold to silver as a mint ratio; *i. e.*, for every grain of gold in a gold dollar, sixteen times as many grains of silver would be placed in a silver dollar. Since 1834, the ratio although commonly stated 16:1 has been 15,988 to 1, or expressed in grains 371.25 to 23.22.

### **Legal Tender Defined.**

1. A legal tender, as applied to money, is such a money which the law makes capable to discharge a debt at maturity.
2. The effects of a refusal to accept are
  - a. To stop the accrual of interest from the date of the tender.
  - b. To throw upon the creditor the costs of a suit to collect.
  - c. To discharge and release whatever pledge, mortgage, or other security given.
3. Legal tender money of the U. S. consists of
  - a. Gold coins to any amount.
  - b. Silver dollars and Treasury notes of 1890 issue, unless otherwise expressly stipulated in contract.

- c. United States notes (greenbacks), except for interest on public debt and for duties on imports.
- d. National Bank notes, legal tender in payment of any debt or liability to any National Bank; also receivable for all government dues except duties on imports, and tenderable for all government dues except interest on bonds.
- e. Silver coins smaller than one dollar, legal tender to the amount of ten dollars in any one payment.
- f. Coins of nickel and copper, to the amount of twenty-five cents.

### The Quantity Theory of Money.

The quantity theory of money assumes that "the value of money (whatever that money may, in the place and at the time, consist of) depends, like the value of anything else, on the relations of demand and supply; that prices are determined in the amount of goods offered for money and the amount of money offered for goods." It takes into account the number of money pieces, and the rapidity of circulation.

### Readings.

#### *Pro:*

- Francis A. Walker—The Quarterly Journal of Economics, October, 1893.
- Amasa Walker—The Science of Wealth, pp. 169-184.
- J. S. Mill, Laughlin's Edition, pp. 305-311.
- J. L. Laughlin, Political Economy, pp. 77-80.

#### *Contra:*

- White—Money and Banking, pp. 419-426.
- Miss Sarah M. Hardy—The Journal of Political Economy (Chicago), March, 1893.

### Summary of Monetary Events in the United States.

- 1792—Adoption of the ratio of 1 to 15, and the establishment of a mint with free and gratuitous coinage; the silver dollar equal to  $371\frac{1}{4}$  grains fine, the eagle to  $247\frac{1}{2}$  grains-fine.
- 1792-1834—Transition from a gold to a silver basis, due to a variance of legal and commercial ratios.
- 1805-1836—No silver dollars coined. President Jefferson issued the order.



- 1834—Substitution of the ratio 1 to 16. Gold dollar made 23.22 grains pure.
- 1837—Fineness of gold coins was raised from .899225 to .900, and the silver coins from .8924 to 900 giving a ratio of 1 to 15.988, and fixing the standard weight of the silver dollar at  $412\frac{1}{2}$  grains.
- 1834–1853—Transition from a silver to a gold basis.
- 1847—Discovery of gold in California.
- 1853—1. Subsidiary silver coin reduced to 345.6 grains as compared with the dollar 371.25 grains.  
2. Legal tender of fractional silver currency limited to \$5.  
3. Amount limited at the discretion of the Secretary of the Treasury.
- 1853–1878—Single gold currency, except the paper period.
- 1861—July 17 and August 5—50 millions of demand notes authorized in denominations of \$5 and upwards, bearing no interest and receivable for public dues.
- 1861—Dec. 28—Suspension of specie payments.
- 1862—Feb. 12—Further issue of 10 millions authorized.  
Mar. 17—Made legal tender.
- 1862—Feb 25—150 millions of U. S. notes authorized.  
July 11—150 “ “ “ “ “ “
- 1863—Mar. 3—150 “ “ “ “ “ “
- These notes were “receivable in payment of all taxes, internal duties, excises, debts, and demands of every kind due the United States, except duties on imports, and of all claims and demands against the United States, except for interest on bonds and notes, which shall be paid in coin. Fifty millions of said notes shall be in lieu of the demand treasury notes authorized by the act of July 17, 1861; which said demand notes shall be taken up as rapidly as practicable.”
- 1862–1879—Paper period.
- 1873—Increase of the intrinsic value of the subsidiary coins of the U. S. Replacing of the double standard by the gold standard. Creation of the trade dollar of 420 grains. Silver dollar dropped from coinage.

- 1878.—Bland-Allison act. Congress provided for the purchase of silver at the market price thereof, of not less than \$2,000,000 worth per month, nor more than \$4,000,000, and the coinage of the same as fast as purchased into silver dollars of  $412\frac{1}{2}$  grains.
- 1878.—Average price per fine ounce, \$1.2048.  
Bullion value of a silver dollar, \$.9318.
- 1879—Resumption of specie payments.
- 1887—Retirement of the trade dollar.
- 1890—Sherman Act provided for the purchase of 4,500,000 fine ounces of silver each month, to be paid for by treasury notes, payable in coin.
- 1890—Average price per fine ounce, \$.9668.  
Bullion value of a silver dollar, \$.7477.
- 1893—Repeal of the compulsory clause of the act of July 14, 1890. (For complete statistics, consult the annual "Report of the Director of Mint," sent upon request.)

**Salient Facts in the World's Monetary Legislation.**

- 1803—France adopted the double standard,  $15\frac{1}{2}$  to 1.
- 1810—Russia adopted the silver standard.
- 1816—England adopted the gold standard.
- 1832—Belgium introduced the French monetary system.
- 1844—Turkey adopted the double standard.
- 1847—Holland adopted the silver standard.
- 1850—Switzerland adopted the French system.
- 1851—Gold discovered in Australia.
- 1854—Portugal adopted the gold standard.
- 1862—Italy adopted the French system.
- 1864—Formation of the Latin Union,—France, Belgium, Switzerland, Italy. Ratio,  $15\frac{1}{2}$  to 1.
- 1867—First International Monetary Conference at Paris.
- 1868—Greece admitted to Latin Union.
- 1868—Spain adopted the French system.
- 1871—Germany adopted the gold standard.
- 1871—Japan adopted the double standard.

1873—Holland suspended silver coinage.

1873—Formation of the Scandinavian Monetary Union on a gold basis.

1875—Italy suspends free coinage of silver.

1892—Austro-Hungary adopted gold standard.

1895—Chile adopted gold standard.

1897—Russia and Japan adopted gold standard.

**Silver Coinage in the United States.**

1793—1853—Free and unlimited coinage of silver.

1853—1873—*Dollars* only were coined on private account.

1873—1899—No silver coined except on government account.

	1793 to 1853	
<i>Dollars</i>		<i>All Other</i>
\$2,407,590		\$76,708,309.40
	1853 to 1873.	
\$5,638,248		\$60,361,246.70
	1873 to June 30, 1898	
\$434,964,953		\$89,329,857.60

**Statement of the Public Debt and of the Cash in the  
Treasury of the U. S., April 1, 1898.**

INTEREST AND NON-INTEREST BEARING DEBT OF THE U. S.		March 31, 1898
Interest-bearing debt .....		\$847,366,680.00
Debt on which interest has ceased since maturity.....		1,283,780.26
Debt bearing no interest	U. S. Notes..... Feb. 25, 1862; July 11, 1862; March 3, 1863. ....	\$346,681,016.00
	Old Demand Notes.... July 17, 1861; Feb. 12, 1862. ....	54,347.50
	National Bank Notes Redemption Account July 14, 1890.....	32,612,218.50
	Fractional Currency.....	6,885,252.14
Aggregate of interest and non-interest bearing debt, exclusive of bonds issued to Pacific R. R.'s.....		386,232,834.14
		1,234,883,294.40

**CERTIFICATES AND TREASURY NOTES ISSUED ON DEPOSIT  
OF COIN AND LEGAL TENDER NOTES AND  
PURCHASES OF SILVER BULLION.**

		In the Treasury	In Circu- lation	Amount Issued
Gold Certificates.	March 3, '63; July 12, '82..	\$1,607,950	\$36,319,119	\$37,927,149
Silver Certificates	Feb. 28, '78 Aug. 4, '86 March 3, '87.....	6,859,606	187,770,898	394,630,504
Certificates of Deposit.....	June 8, '72.....	3,330,000	37,900,000	41,230,000
Treasury Notes of 1890.....	July 14, '90... ..	3,905,848	99,709,432	103,615,280

THE SECRETARY'S REPORT, JULY 1, 1899, SHOWS

THE FOLLOWING:

General Stock of Gold Coined.....	\$ 855,583,055.00
Gold in Circulation.....	702,060,459.00
National Bank Notes Issued.....	241,350,871.00
National Bank Notes in Circulation.....	237,832,594.00
Standard Silver Dollars in Circulation. ....	63,381,751.00
Per Capita Circulation in the U. S.....	25.38

**Questions.**

1. Give the etymological significance of the word (a) *pecuniary* (b) *estimation*.
2. What are the objections to *barter* as a form of exchange?
3. Why are the metals minted?
4. Define *seigniorage*.
5. Does the political economist regard money as wealth?
6. Is it economic to speak of "buying and selling money"?
7. What objections can you offer to a commodity multiple standard of values?
8. How would such a standard be brought about and maintained? Do you think a standard could be arranged for the whole United States?
9. Define the term "resumption of specie payments."
10. Define (a) *demonetization*. (b) *Remonetization*.
11. What is meant by the "crime of 1873," and why so called?
12. What is the present market ratio of silver to gold?
13. Consult to-day's market reports for the price of silver and determine the bullion value of a silver dollar.
14. Was gold more valuable in the market as bullion, or as money from 1792 to 1834? What was the effect?
15. Is the United States coining silver dollars at the present time? Is the United States buying silver?
16. What is the legal tender power of the silver dollar to-day? Of fractional currency?
17. Examine all the kinds of paper money used in the United States as to the legal tender qualities of each.
18. The gold standard man says: "If we restored silver to a free coinage basis at 16 to 1, we would be compelled to double the value of silver and maintain its parity with gold, or else we would become a monometallic silver country." Examine this statement from a historical economic point of view.
19. What is to be understood by "International Bimetallism"?
20. Are the values of gold and silver subject to exactly the same laws as other commodities?

**Illustrative Quotations.**

“Exchange enables us to utilize for the best a large quantity of wealth which without it would have remained unused. Without exchange what would England do with her coal, California with her gold, Peru with her guano, Brazil with her bark? When analyzing the nature of wealth we found that an indispensable condition for any object ranking as wealth was its capability of being utilized. For this to be effected exchange must convey the article to the person who is to use it—the quinine to the fever patient, guano to the farmer, coal to the manufacturer, etc. Not only must we say that without exchange the greater part of wealth would be unused, but we must add, it never would have been produced at all.”—*Gide, Pol. Econ., p. 172.*

“Some years since Mademoiselle Zelié, a singer in the Théâtre Lyrique at Paris, made a professional tour around the world and gave a concert in the Society Islands. In exchange for an air from *Norma*, and a few other songs, she was to receive a third part of the receipts. When counted her share was found to consist of three pigs, twenty-three turkeys, forty-four chickens, five thousand coconuts, besides considerable quantities of bananas, lemons, and oranges. At the Halle in Paris, as the prima donna remarks in her lively letters, this amount of live-stock and vegetables might have brought four thousand francs, which would have been a good remuneration for five songs. In the Society Islands, however, pieces of money were very scarce, and as Mademoiselle could not consume any considerable portion of the receipts herself, it became necessary in the meantime to feed the pigs and poultry with the fruit.”—*Jevons, Money and Mech. of Ex., p. 1.*

“Exchange is the indispensable condition of civilized life. The vital principle of exchange is equality of value in the things exchanged. In order that there may be equality of value there must be a measure of value. Money is anything that serves as a common medium of exchange and measure of value. It need not be a good measure; it is only necessary that it should be the agreed measure of any time, place, or people. We are now speaking of real money, not of its representatives or substitutes.”—*Money and Banking, White, p. 3.*

“Barter is too complex, cumbrous and difficult to answer for

the exchanges of a highly developed community. Some article is, therefore, selected, first by custom, and afterward by law, to act as a medium in terms of which all exchanges may be made. This device lubricates the action of exchanges, avoids the transfer of bulky articles, permits the indefinite division of wealth and value, and renders easy a volume and variety of commerce that would otherwise be impossible." — *Parson's Rational Money*, p. 80.

"But within responsible limits we do not hesitate in believing that an international agreement would be efficacious in fixing the respective values of the two metals, and consequently in doing away with the chief disadvantage of bimetallism, the disappearance of one of the two moneys. For whither would it go, seeing that in every country it would be subjected to the same law? If at present gold tends to escape from France to England, that is because gold is worth more in England than in France; in France it is worth only  $15\frac{1}{2}$  kilogrammes of silver; in England it is worth 18 to 20; but if in England, too, its worth was fixed by law to be no more than  $15\frac{1}{2}$  kilogrammes of silver, where would the exporter's profit come in? If in France an ox could not be sold for more than one sheep, all oxen would assuredly be sold abroad; but if abroad, too, they were treated on exactly the same footing, they would remain where they were." — *Gide, Pol. Econ.*, p. 213.

"A few propositions may now be taken as established:

1. The volume of exchanges furnishes the normal demand for currency.
2. Increase in the supply of currency, whether by coin, greenbacks or credit, tends to depreciate the unit, that is, to raise prices.
3. The value of the unit, if made of coin, ultimately equals its marginal cost of production; that is to say, free coinage finally fixes the value of the unit at the value of the contained bullion (seigniorage is unimportant for this purpose).
4. If two metals are to circulate side by side, they must maintain exact market parity at the coinage ratio, else but one will circulate, and that the cheaper.

5. The use of gold as currency tends to enhance its market value, and has thereby greatly increased the amount produced.
6. Demonetization, partial or complete, of gold, temporarily at least, will lower its value, and discourage production, till the over-supply has drained away. Ultimately its value would again come to coincide with its marginal cost of production.
7. The demonetization of silver would tend to raise its value and to stimulate its production with the final outcome that the purchasing power of the unit would fix itself at the cost of production mark.
8. It is then possible that the free coinage of silver at any reasonable ratio, should bring about a parity between gold and silver. If this ratio did not approximately correspond to the normal cost of production ratio, it would be short-lived in proportion as it was wide of this mark." — *Davenport, Outlines of Ec. Theo*, p. 371.

### Readings.

- J. S. Mill, *Pol. Econ.*, Laughlin's Edition, pp. 312-324.  
 Walker's *Pol. Econ.*, adv. Course, pp. 120-151.  
 Gide's *Pol. Econ.*, pp. 74-84; 186-213.  
 Money and Banking — *Horace White. An excellent treatise.*  
 History of Bimetallism in the U. S. — *J. L. Laughlin.*  
 Money and Mechanism of Exchange (1876). — *W. Stanley Jevons.*  
 The Silver Situation in the U. S. (1892). — *F. W. Taussig.*  
 Money (1878). — *Francis A. Walker.*  
 Davenport's *Outlines of Ec. Theo.*, pp. 224-255.  
 Money and Monetary Problems (1895). — *J. S. Nicholson.*  
 The Financial History of the U. S. — *A. S. Bolles.*  
 American Political Economy, pp. 273-393. — *Francis Bowen.*  
 Andrew's *Inst. of Ec.*, pp. 117-158.  
 Bullock's *Intro. to Study of Ec.*, pp. 210-255.

### Of Paper Money.

#### 1. Kinds of.

- (1) Representative — that which represents an equal sum of coin deposited somewhere.
- (2) Fiduciary, or credit paper — that which represents a promise to pay a certain sum of money.



(3) Conventional or fiat — that which the Government says is money; *fiat, let it be.*

2. Objections usually given.

(1) Value of paper money is precarious, while the value of the metals is determined by natural causes.

(2) Value of paper money is necessarily restricted to the jurisdiction of the territory in which it is intended to circulate.

(3) Value of paper money lacks permanence.

3. Dangers resulting from its use.

(1) Premium on gold.

(2) Rise in the rate of exchange.

(3) Metallic money driven from circulation.

(4) Duplication of prices — one in paper, the other in gold.

**SUBSTITUTES FOR MONEY CLASSIFIED. Laughlin.**

- |                                                                                                     |                                       |                                                             |
|-----------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------------------------------|
| Substitutes for money, called <i>Credit</i> , which is not capital, but calls out inactive capital. | {                                     | 1. Use of credit depends not on quantity of coin and notes. |
| {                                                                                                   | 2. Various kinds of credit.           | {                                                           |
| {                                                                                                   | 1. Book credits.                      | {                                                           |
| {                                                                                                   | 2. Bills of exchange.                 | {                                                           |
| {                                                                                                   | 3. Checks.                            | {                                                           |
| {                                                                                                   | 4. Promissory notes                   | {                                                           |
| {                                                                                                   | 1. Individuals                        | {                                                           |
| {                                                                                                   | 2. Banks                              | {                                                           |
| {                                                                                                   | 3. Governments                        | {                                                           |
| {                                                                                                   | 1. Convertible-U. S. notes since 1879 | {                                                           |
| {                                                                                                   | 2. Inconvertible                      | {                                                           |
| {                                                                                                   | 1. Law's scheme 1718-20               | {                                                           |
| {                                                                                                   | 2. Assignats 1793-96                  | {                                                           |
| {                                                                                                   | 3. Massachusetts, 1690-1750           | {                                                           |
| {                                                                                                   | 4. Conti's Currency 1775-80           | {                                                           |
| {                                                                                                   | 5. U. S. Notes 1862-79                | {                                                           |

**Questions.**

1. "Credit is not a creation, but a transfer of Capital." Explain.
2. Can an inconvertible currency be made to maintain the same value as a convertible currency, and, if so, how? Supposing that it can, what objections are there, nevertheless, to it?
3. How is it a bad dollar does the work of buying as well as a good one until it is found out?
4. To what extent is a government capable of giving fictitious value to a paper or a metallic currency?
5. Tell in what ways you could pay a debt of \$50 in legal tender, U. S. paper money.
6. Ninety per cent. of the business of the United States to-day is done on a credit basis. Explain the statement.
7. The nearer we approach to a pure credit system, we near the restoration of barter. Explain.
8. If a paper money should always have a foundation on actual property, would any of its dangers be obviated?
9. In a country with an inconvertible paper currency, how can it be determined whether the issues are excessive or not?
10. Do you think a paper currency could be maintained perfectly by international agreement?
11. President Garfield once said: "We do not export paper money, for the same reason we could not export bad cheese or rancid butter." Wherein is the analogy?
12. What is the cost of production of a paper currency? What is the difference in the depreciation of value of paper and metallic moneys, as to the extent of the depreciation?
13. Is the creation of paper money, the creation of wealth?
14. Ricardo said: "The whole charge for paper money may be viewed as seigniorage." Explain.
15. What is meant by *inflation*?
16. May paper money serve as a standard of deferred payments? As a value denominator?
17. Did the U. S. Demand notes, issue of 1862, depreciate along with the "Greenbacks"?

18. Could you legally have a die and stamp metals as coin, provided you used an original design?

### Illustrative Quotation.

“What determines the value of any kind of money? What determines the value of anything? Demand and supply. The demand for money is, the amount of money-work to be done, the amount of exchanging requiring to be effected, through the use of money. The supply of money is the money-force available to do the money-work. It is compounded of the volume of the circulating money and the rate of circulation. Supposing the occasion for the use of money—the demand—to remain the same, and the rate of the circulation of paper to be the same as that of metal, the value of a body of paper money would be the same as that of a body of money consisting of as many pieces of metal as there were pieces of paper, the pieces being of the same “denominations,” whether stamped with the mint press or the printing-press.”—*Walker, Adv. Pol. Econ., p. 158.*

“It is not necessary that paper money should be payable in specie to secure its value; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard.”—*Ricardo.*

“I know of nothing in the history of inconvertible paper money to indicate that such money, when issued of a denominative value not to exceed the mint value of the coin which would have circulated in the community under the law for the territorial distribution of money, may not serve as the general medium of exchange, so far as the internal trade of a country is concerned, in every way as satisfactorily as the coin itself. Indeed, if any preference exists, it will be in favor of the paper money, as more convenient to handle, more readily transported, more successfully concealed.”—*Walker, p. 162.*

“When, therefore, the question is asked, ‘Does it lie within the power of a government or a banker actually to augment the wealth of a country by the emission of paper money?’ it is not perfectly correct to answer in the negative. As a matter of fact, the affair is feasible, *but only up to the total amount of metallic money in circulation.*”

“ But we must note that this gain would be realized only by some countries, not by all at once. One country can certainly productively utilize its metallic stock by selling it abroad; but if every country wished to do the same, it is evident that none of them would succeed. Gold and silver specie being offered by all countries seeking to get rid of them, and being demanded by none, would become a drug on the market, and henceforward valueless.” — *Gide, Pol. Econ., p. 221.*

### Readings:

- J. S. Mill. *Pol. Econ.* Laughlin's Ed., pp. 344-363.  
 Walker. *Pol. Econ. Adv. Course*, pp. 152-165  
 Rational money. Parsons, pp. 1-79.  
 Gide. *Pol. Econ.*, pp. 214-235.  
 Davenport. *Outlines of Ec. Theo.*, pp. 260-272.  
 Money and Banking. White, pp. 117-198.  
 United States Notes. John Jay Knox, (1884).  
 History of American Currency. W. G. Sumner.  
 (Splendid bibliography will be found in White's "Money and Banking" pp. 469-477; also in Laughlin's Mill, pp. 633-635 a bibliography of bimetallism).

### Of Banks and Banking.

1. Establishment of early banks.
  - (1). Venice, 1154 (?).
  - (2). Genoa, 1407.
  - (3). Amsterdam, 1609.
  - (4). Sweden. First issued bank money, 1658.
  - (5). England, 1694. First issued notes below £20, 1759.
  - (6). Scotland. First issued £1 notes, 1704.
  - (7). France, 1800.
  - (8). United States, 1791.
2. Fundamental operations of all banking business.
  - (1). Deposit.
  - (2). Discount.
  - (3). Issue.
3. Kinds of banks existing to day in the various States.
  - (1). Private.
  - (2). State.
  - (3). Savings.
  - (4). National.
4. Distinctions between bank notes and credit papers.
  - (1). It yields no interest.

- (2). It is transferable by delivery.
- (3). It is payable at sight.
- (4). It is payable on demand.
- (5). It is payable for a liquidated amount.
- (6). It is issued and signed by a known bank.

### Theories Concerning the Issuing of Notes.

#### 1. The Currency Principle.

Under this system a certain proportion between the sum total of the reserve and the amount of notes in circulation is required. The Bank of England since the Act of 1844 has been under this régime.

#### 2. The Banking Principle.

This system is explained in the quotation from Walker, *infra*. It involves the principle of the liberty of banks, the antithesis of the Currency Theory.

#### 3. The Security Principle.

This system compels banks to guarantee the notes issued by securities, generally securities of government stock. The National Banks of the United States are operated in this way.

#### 4. Another system attempts to fix the maximum of issue. It has been resorted to in France since 1870.

### Some Facts Concerning Famous Banks.

#### 1. The First United States Bank.

Began operation in 1791 in Philadelphia. Capital, \$10,000,000, \$2,000,000 of which the United States was to raise, the rest to be subscribed by the people. Chartered for 20 years. The bank was to keep the public revenues, negotiate loans, and aid in making payments over all the country. Branches in the chief towns and cities were authorized. Bank bills, receivable for public lands, taxes, duties, postage, or any debt due the government, could be issued, which bills were payable on demand in specie.

#### 2. National Banks (U. S.). Established by Act of Congress, 1863.

This system is under the supervision of the Comptroller of the Currency. Banks are required to redeem their

notes in legal money upon demand of the holder. Bonds of the National government are required to be deposited in the U. S. treasury, and the issues in paper can not exceed 100% of the bonds so deposited. Also, the maximum of notes bear a certain relation to the capital of the bank; viz., to banks having capital between \$500,000 and \$1,000,000, 80%; between \$1,000,000 and \$3,000,000, 75%; exceeding \$3,000,000, 60%. The government guarantees the circulation of the notes, and receives them for all dues, except customs-duties.

### 3. The Bank of England.

Act of 1844 provided: (1) The Bank could issue notes in the constant sum of £15,000,000, without any specie basis. (2) For all issues above this amount, it must have a specie reserve, pound for pound, of which one-fifth may be silver. (3) The issue and banking departments are completely divorced. (4) No other London bank could issue notes, nor any English bank chartered since 1844. (5) English banks then in existence were limited to the outstanding circulation prior to that date.

For week ending March 23, 1898, the statement of the Bank of England showed notes issued £47,671,610.

### 4. The Bank of France.

Founded by Napoleon, 1800, and was privileged to issue notes in 1803 in Paris, and in its established branches. Since 1848, it has had the monopoly of issue. It is a joint-stock company. The principal regulations are:

- (1) It can not pay interest on deposits.
- (2) It can make advances on stocks, securities, and bullion.
- (3) It may make uncovered advances to the government.
- (4) It can discount bills of exchange bearing at least three signatures, and drawn for ninety days after date.
- (5) It can not issue notes beyond a certain limit.

Up to 1897, the limit was 3,500,000 francs.

The statement of the bank, week ending March 24, 1898, showed a capital of 182,500,000 francs; notes in circulation, 3,698,764,450 francs.

**Questions.**

1. State some differences between bank notes and paper money.
2. What is meant by "wild-cat" money in U. S. History? When was the period?
3. Have banks in the U. S., other than National Banks, the right to issue notes? Do they? If not, why not?
4. Could state bank notes ever circulate as legal tender? Give reason.
5. Illustrate by a problem the meaning of Bank Discount.
6. Was it the intent of the framers of our constitution that paper money should ever be issued by the government?
7. Give the meaning of premium and discount as applied to the rate of exchange, and show concretely the cause of each.
8. What is arbitration of exchange?
9. Is it possible for any one to ever lose a cent by the failure of a U. S. National Bank (1) as regards holders of its paper, (2) as regards depositors?
10. What are the objections to a State Bank's issuing paper to circulate as money?

**Readings.**

- Walker. Pol. Econ., Adv. Course, pp. 166-171; 439-448.
- Lalor. Cyclopedia of Political Science, subject, Banks.
- "Investment Guide." Published by Henry Clews & Co., Bankers, New York City. Valuable for up-to-date statistics. Sent upon request.
- Gide. Pol. Econ., pp. 271-319.
- Banking and Credits. Prof. J. B. Duryea. An excellent treatise, published by the author at Des Moines, Iowa.
- Money and Banking. White, pp. 235-419.
- J. S. Mill, Pol. Econ., *Laughlin*, pp. 330-334.
- Hinsdale. American Government, pp. 207-211.
- Davenport. Outlines of Ec. Theo., pp. 364-369.
- Theory and History of Banking (1891) C. F. Dunbar.
- The Elements of Banking, (1885). H. D. Macleod.
- For legislation on Banks and Banking, consult your State Constitution and State Statutes.
- Iowa Code, 1897:—Savings, Sections 1840-1860. State, Sections 1861-1867. General Provisions, Sections 1868-1889.
- State Constitution of Iowa, Art. 8.

**The Workings of a Clearing House.**

- I. Checks, drafts, and all matter suitable for clearing are listed and footed upon properly headed blanks (1) at each bank according to Clearing House rules.
- II. Matter for clearing with credit slip (2) signed by the teller,



showing total amount sent to the Clearing House by messenger.

- III. Exchange of matter made at Clearing House and slip (3) prepared by each messenger showing business done by his bank and given to clerk of Clearing House.
- IV. Settlement made on books of Clearing House, and Clearing House checks (4) given to banks having credit balances against banks having debit balances.

[1] **Citizens' National Bank**  
 IN ACC'T WITH  
**Des Moines Clearing House.**  
 DR. CR.

[1] **Citizens' National Bank**  
 ON  
**IOWA NATIONAL BANK,**  
*Des Moines . . . . . 190...*

	Des Moines National Bank, Iowa National Bank, Valley National Bank, American Savings Bank, Capital City State Bank, Des Moines Savings Bank, Grand Ave. Savings Bank, People's Savings Bank, Home Savings Bank, Marquardt Savings Bank, German Savings Bank, Bankers' Iowa State Bank Central State Bank. ..... .....		
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..... *Bal. Dr.*..... *Bal. Cr.*.....  
 ..... 190.....

[2]

Des Moines Clearing House.	<b>BANK No. 1.</b>	<b>Des Moines,.....190..</b>
	<b>CREDIT</b>	
	Citizens' National Bank, - \$.....	..... ..... .....
	Amount of checks to Clearing House this day per Messenger ..... <i>Teller.</i>	

[3]

BALANCE TICKET.	<b>NO. 1</b>	<b>Des Moines Clearing House,.....190..</b>
	Amount Received \$.....	..... ..... .....
	Amount Brought \$.....	..... ..... .....
	Debit \$.....	..... ..... .....
	Bal. due Clearing House	
	Credit Bal. Due Citizens' Nat'l Bank \$.....	..... ..... .....
..... <i>Messenger.</i>		

[4]

\$.....	<b>Des Moines Clearing House.</b>
<p>In the settlements of the balances of the Exchanges made between the members of the Association to-day there is due from (No.....) the .....</p> <p>.....DOLLARS,</p> <p>payable on demand, to (No.....) the.....</p> <p>not transferable, and without recourse on any other member of this Association after two o'clock p. m. of this day.</p> <p style="text-align: right;">GEO. E. PEARSALL, Mgr. Per Chas. E. Lynde, Clerk.</p>	

### Illustrative Quotations.

“The view of the operations of bank money which is held by the great majority of writers of repute, in nearly all countries, is that, when really convertible into coin on demand; with all reasonable facilities existing for redemption, and with redemption actually taking place from time to time; with a public opinion which does not allow to be questioned the right of any man anywhere, for any reason or for no reason, to require coin, for any and all notes he may hold; and with exemplary penalties, provided by law and enforced by the courts for the first failure or the slightest delay on the part of banks to make good their promises, such money acts in all respects precisely as would a body of money composed wholly of coin.

“The question whether a body of money composed partly of coin and partly of bank notes fully convertible into coin acts in all respects as would a body of money composed wholly of coin, or on the other hand, has the capability of being issued in local excess and so maintained for a long enough time to affect local prices, and thus initiate abnormal movements of trade and production, I regard as the one open question in the theory of money. Brought up in the school which held the latter view (Banking Principle), my own reading and reflection have confirmed me in the belief that there resides in bank money, even under the most stringent provisions for convertibility, the capability of local and temporary inflation.

“I freely confess that the preponderance of authoritative opinion is against the view I hold.”—*F. A. Walker*.

“It can thus be seen, taking all in all, no one system hitherto conceived can guarantee the payment of notes. The only efficacious method would be to oblige banks always to keep a reserve equal, not only to the total value of their notes in circulation, but also to the amount of their deposits. But then, alas, banks would be of no further use. They would no longer utilize the floating capital of the country, for they would confine themselves to uselessly heaping it up in their cellars. They would no longer serve to economize money, for the bank note would henceforth have but a representative character. Finally, they would no longer be credit institutions. If we wish to use credit, we must resign ourselves to its disadvantages. It is a mere attempt at the squar-

ing of the circle, to seek to combine at one and the same time the advantages of credit and of ready money, for the two are mutually exclusive."— *Gide, Pol. Econ., p. 316.*

### International Trade.

1. "International exchanges call out chiefly the special advantages offered by particular localities for the prosecution of particular industries."

This may be illustrated as follows:

ARTICLES INTERCHANGED.	ENGLAND.	SWEDEN.
Cotton.....	10 days' labor gives X yards.	15 days' labor gives X yards.
Iron.....	12 days' labor gives Y cwt.	15 days' labor gives Y cwt.

"It is not the difference in the absolute cost of production which determines the interchange, but a difference in the comparative cost."

This comparative cost has reference to the cost of producing two or more articles in the *same country*, and not to the difference of cost of the *same article* in the different trading countries.

NOTE:— Illustrate this statement of comparative costs in the illustration above.

2. Causes of differences in the absolute costs of production.
  - a. Race element.
  - b. Standard of living.
  - c. Natural resources.
  - d. Climate.
  - e. Transportation facilities.
  - f. Technical skill, etc.
3. Obstacles to the free movement of labor and capital.
  - a. Geographical distance.
  - b. Difference in political institutions.
  - c. Difference in forms of civilization, as language, religion, politics, social customs, etc.
4. International Exchanges take the shape of barter. Specie scarcely ever represents more than 7% to 10% of sum total of exports and imports.

## a. Reasons

1. Amount of coin is not sufficient.
2. Currency has little circulating power outside its territorial jurisdiction.
3. Abnormal conditions in prices would result if all payments had to be made in coin.

## 5. General law.

“ Every exportation, when it takes the shape of a regular current, necessarily provokes and determines a corresponding importation, and, *e converso*.”

## 6. The meaning of Balance of Trade.

- a. The Balance of Trade indicates the relation of exports to imports of any country.
- b. Illustrated in the foreign trade of the U. S., 1897-1899.

CALENDAR YEAR.	EXPORTS.	IMPORTS.
1897 to June 30, 1898 . . . . .	\$1,231,482,330.	\$616,049,654.
1898 to June 30, 1899 . . . . .	1,227,443,425.	697,077,388.

- c. From 1871-1899, with the exception of the years 1871, 1872, 1873, and 1883, the balance of trade has been in favor of the U. S.
- d. French statistics show that France imported four billion francs' worth more than she sold between 1885 and 1889, or an average excess of imports of 800,000,000 francs a year.
- e. English statistics are more startling.

Query: Does such amount of bullion leave the country to settle such exchanges?

Answer: No. Why not?

- (1) The cost of transport of exported goods.
- (2) The interest on capital invested abroad.
- (3) Expenses of foreigners living abroad.
- (4) Bankers' commissions.
- (5) The sale of vessels.

**Free Trade and Protection.**

1. Exports are said to possess superior advantages.
  - a. Profits come to the country exporting.
  - b. Causes coin to enter the country.
  - c. Extends the moral and political influence of the country.
2. Imports are alleged to possess numerous dangers.
  - a. Profits go the foreigner.
  - b. Coin goes out of the country.
  - c. Make an importing nation a client of the foreigner.
  - d. Too much competition with national industries.
3. Arguments in favor of Free Trade.
  - a. It is the normal and natural condition.
  - b. Protective duties bring about an *unequal* protection.
  - c. Protective duties shackle foreign trade and reduce amount of exports.
  - d. Raise the cost of production.
  - e. The incidence of the tariff or tax falls on the consumer, advancing the cost.
  - f. Protection removes the stimulus of foreign competition.
  - g. Protection fosters monopolies.
  - h. Protection encourages the establishing of industries under forced conditions.
4. Arguments in favor of protection.
  - a. Creates a national spirit, and makes a nation independent.
  - b. Causes a diversified industry, giving labor and capital greater liberty.
  - c. Fosters new industries, which otherwise could not be established.
  - d. History proves protection has been helpful.
  - e. National industries can be protected by graduating the duty according to requirements.
  - f. A protective system takes into consideration differences in industrial, social, and geographical conditions of different countries.
  - g. Customs-duties (revenues which cost the country nothing) are obtained.
  - h. Prevents one nation from dislodging another in the world of commerce, simply because that nation has superior advantages in production.

Note: Examine and compare the reasons given above, and try to refute. How many do you deem fallacious? Give reasons.

**Claims of the Bounty System.)**

1. It does not enhance the price of products.
2. System is not so arbitrary.
3. Places protection only where it is needed.
4. Can be graduated at will to suit changed conditions.
5. It does not interfere with international trade or domestic production.
6. It is an intelligent sacrifice on the country on the grounds of public policy and utility.

**Claims of the Reciprocity System. (Fair Trade.)**

1. Makes trade conform to natural conditions.
2. Measures equal advantages to the nations affecting the treaty.
3. Has none of the objections of a protective system, and gives as many advantages.
4. Brings nations into more friendly relations, and breaks down the Chinese wall of prohibitive tariffs.

Query: What objections can you offer to either the Bounty System or Reciprocity?

**ASPECTS AND ARGUMENTS IN TARIFF QUESTION.**

*Infant Industry.*—Correct in theory but inconsistent with permanent system argument; so abused in practice as to be bad; tends to fix itself permanently.

*Diversified Industries.*—Our industries sufficiently diversified anyway. In some cases a good argument from educational point of view. For us real question is one of economic profit.

*Commercial Independence.*—Peace and civilization furthered by interdependence. Division of labor as good for nations as for individuals.

*Tax on Foreigners.*—Temporary success. Consumers finally pay most of the tax—commonly not quite all.

*To Hurt Foreigners.*—Trade helps both sides or there would be no trade.

*To Employ Labor.*—Till there are no more unsatisfied needs there will be employment under either system. (Under which system are temporary derangements most likely?)

*To Offset Differences in Wages.*—Need of protection proves low relative productiveness. General level raised only by increased social product. Wages can not be increased by tariff at expense of interest or profits.

*Ultimate Question, then, is,*

#### DOES PROTECTION INCREASE SOCIAL PRODUCT?

Is the new industry more highly value-creating than the displaced industry? If so, why can it not without help pay the ruling wages? Higher cost of production means merely larger displacement of other products.

#### PROTECTION DEMORALIZES POLITICS.

But under MONOPOLY CONDITIONS protection may pay. Of one hundred apples better destroy fifty where fifty can be sold at three cents apiece than sell one hundred at one cent apiece.

Protection may, under unusual conditions, rest as a heavy tax on foreigners.

May work beneficially to modify distribution, but taxation would be a less wasteful method.—*Davenport. Outlines of Ec. Theo., p. 200.*

#### Questions.

1. "Self-interest governs commerce." Why so?
2. In strict theory, can a tariff that protects ever be a revenue tariff?
3. Benj. Harrison in an inaugural address said that we should have a tariff sufficient at least to measure approximately the differences in cost of production in this and the importing country. Comment.
4. Is the total quantity of imports equal to the total of exports in the world? Are the values of the same equal? How does your answer, if correct, explain the excess of imports over exports?
5. Illustrate the gain in trade between the United States and England on the following data: 100 days' labor produces X bus. of corn in the United States. 200 days' labor is required in England,



125 days' labor produces Y tons of iron in United States. 150 days' labor is required in England. In which commodity is our comparative advantage?

### Readings.

- J. S. Mill. Pol. Econ. Laughlin. pp. 377-417.  
Gide. Pol. Econ., pp. 236-271.  
Walker. Pol. Econ., Adv. Course, pp. 505-517.  
Patton. Pol. Econ., pp. 191-238.  
Davenport. Ec. Theo., pp. 178-200.  
A. L. Perry, Pol. Econ., Chapter XIII.  
Article "Tariff" in the International Cyclopedia.  
"Lectures on Protection in the United States," W. G. Sumner.  
R. E. Thompson. Pol. Econ., Chapters X-XII.  
Bowen. American Pol. Econ., pp. 480-495.  
Free Trade and Protection. Fawcett.  
The Tariff History of the United states. F. W. Taussig.

# CONSUMPTION.

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## Definition.

Consumption is the act of employing wealth for the satisfaction of our wants.

## Kinds.

1. Productive.
2. Unproductive.

## The Law of Diminishing Utility.

“If a person consumes at any given time successive units or portions of a commodity, he finds that the later units produce less pleasure or satisfaction than the first.”

1. In consumption of goods, a person considers
  - (1) The utility of the goods.
  - (2) The cost or sacrifice to procure them.
2. All estimates of utility are based upon the utility of the last, or marginal portion of the supply.

## Economy in Consumption.

1. The theory that “spending makes trade brisk.” Examine the case of a great “ball” costing \$50,000.
2. Expenditure regulates but does not feed production. Why?
3. A study of luxurious expenditures.
  - a. Are they, economically, a good?
  - b. How is a luxury to be defined?

## The Economics of Saving.

1. Saving to secure an accumulated stock.
2. Saving for investment in production.

Query: 1. Is there an economic distinction between saving in order to have an income on the stock saved and saving to invest? 2. What are the conditions affecting saving? 3. What is the desirability of saving? 4. Do you deem the family relation the greatest incentive to saving?

**The Conditions of Investment.**

1. Security—a confidence we shall get our money back.
2. Prospective gain or profit.

**Illustrative Quotations.**

“Our analysis of the results of saving enables us to see at once the absurdity of the idea that reckless and wasteful expenditure can be approved because it makes trade good. Saving makes trade good and causes a demand for products just as truly as does spending. But spending inconsiderately leads to the destruction of utilities; saving, to the ultimate increase of production. Yet many intelligent people and many important newspapers often excuse extravagance and profusion on the ground that they make trade good, and give employment to labor.”—*Bullock, Intro. to Ec., p. 109.*

“Luxury, in fact, is to devote a sum of money, or more scientifically speaking, a relatively large amount of labor, to the satisfaction of a relatively superfluous want.”—*Gide, p. 370.*

“The amount of wealth in a country being given, the proportion of this wealth which shall be invested in industrial operations with a view of profit will depend, first, upon the strength of those qualities in the average character of its inhabitants which lead to productive investment—what Mr. Mill calls ‘the effective desire of accumulation;’ and secondly, on the opportunities of industrial investment open to the community offering a rate of profit sufficient to call this principle into activity—in a word, on ‘the extent of the field for investment.’”—*Cairnes, Pol. Econ., p. 169.*

**Readings.**

- Gide. *Pol. Econ.*, pp. 359-397.  
 Bullock. *Intro. to Ec.*, pp. 87-113.  
 Marshall. *Prin. of Ec.*, pp. 159-213.  
 Walker. *Pol. Econ.*, pp. 292-329.  
 Andrews. *Inst. of Ec.*, pp. 79-82; 190-199.

## DISTRIBUTION.

### Definition.

Distribution is that department of political economy which concerns itself with the division of the wealth-product among the producers of it.

Query: 1. Why did the classical school hold that there was no problem of a better distribution of wealth? 2. Does a person receive a share of the wealth-product in proportion to the amount of socialability he has supplied; *i. e.*, to the services he has rendered? 3. If you accept this statement, would value depend upon labor? 4. Why do most of the proposed reforms come within the field of distribution?

### Formulæ for the Division of the Wealth-Product. (Socialist Systems.)

1. An equal share to each person. The theory questioned:
  - (1) It is a negation of all sharing.
  - (2) It is not founded on any principle of justice.
  - (3) It could not possibly apply to a complex society.
  - (4) It could not apply to but few forms of wealth.
2. To each person according to his wants. The theory questioned:
  - (1) Who could measure a man's wants?
  - (2) The amount of wealth is far too small to be so divided.
  - (3) Who would have the nicety of judgment to determine what desires would be lawful and which unlawful?
  - (4) As a matter of fact, this system would, also, be a negation of all sharing.
3. To each man according to his capacities. The theory questioned:
  - (1) Who is so infallible as to measure each man's capacities and merits?
  - (2) Intellectual or physical superiority of itself ought not to be a claim to wealth.

- (3) A distribution of wealth under a Board of Government Commissioners would give rise to more difficulties and injustice than under the present system.
- (4) It is not founded on any principle of justice.
4. To each man according to his labor. The theory questioned:
- (1) It would lead to a complete revolution of our social and economic institutions. Why?
- (2) It would do away with all charitable work and eleemosynary institutions. Why?
- (3) If the formula means "to each man the product of his labor," how could each person's work be determined when division of labor plays so important a part?
- (4) Is it possible to find a *common measure* of work, say *an hour's labor*? Is it possible to measure *sacrifices* in terms of hours?
- (5) What might be very advantageous to the individual laborer might prove exceedingly injurious to society as a whole.

Query: Do any of these maxims of distributive justice appear to be practicable? Do you believe it possible to distribute the wealth-product by a formula?

#### Illustrative Quotations.

"Stanley Jevons has compared the process of production in which the three factors of production are joined together, to the kitchen of the three witches in Macbeth, who throw into their cauldron and stir up therein the most heterogenous substances for the purpose of brewing their 'hell-broth.' In such a blend as this how are we to set about finding what each man's share should be? What analysis shall we use, and what law shall we follow, so as to arrive at this determination?"—*Gide. Pol. Econ., p. 428.*

"As to the amount of truth or morality which these several maxims embody, I am not concerned here to inquire. My business with them has reference exclusively to their efficacy as rules for regulating the distribution of wealth. But in proceeding to examine them with this view, I am anxious to disclaim all desire to disparage the ideals of human life which they suggest, pro-

vided they be regarded simply as ideals — as a goal toward which one may work and strive, due consideration being had of the actual circumstances of the external world, and of the character, as heretofore actually developed, of human being residing upon it: indeed, so far from this, I have no hesitation in admitting that the realization of any one of them would imply a condition of society incomparably superior to any that now exists, or is likely for a long time to exist.

\* \* \* \* \*

The agencies in operation are essentially out of the moral sphere; and if it should in fact happen the results arising from their free action in any given case prove to be in strict accordance with the claims of moral justice, and with so-called 'natural rights,' I do not see that we should be justified in regarding the coincidence as other than a fortunate accident."—*J. E. Cairnes, Pol. Econ., p. 24.*

"We must repeat that present distribution is based on the law of supply and demand, which of itself is neither moral nor immoral, and which is as perfectly indifferent to all our thoughts of justice as the sun which shineth on the just as on the unjust. That is why there is a social question.

\* \* \* \* \*

The gravity of the problem does not arise so much from the unequal distribution of goods — for that might fairly easily be overcome — as from their insufficiency. The enunciation of the fact leads to this: whatever mode of distribution may be proposed, it should always be subordinated to the mode of production: however conformable the plan might otherwise be to the ideal of distributive justice, it should be sternly rejected if it might lead to a diminution of production. The *sine qua non* is not to discourage productive activity. On this reef we shall find that all socialist systems founder."—*Gide.*

### Schemes of Distribution.

1. Individualistic. Based on private property.
2. Collectivistic. Based on the right of the state to own and control all agents of production.
3. Communistic. Based on communal rights.

4. Co-operative. Based on joint individual enterprise, aiming to do away with influence of capitalist class, and to eliminate entirely the entrepreneur.

### Examination of the Communistic System.

1. Necessary conditions.
  - a. A small social unit, 500 to 2,000.
  - b. Strictest obedience is obligatory.
  - c. Some predominant sentiment, generally religious.
2. Objections generally cited.
  - a. Evasion of work. The "master's eye."
  - b. Prudential restraint on numbers removed.
  - c. Apportioning the labor of the community.
  - d. Does not answer for the multiform development of human nature.
3. Communistic societies of the United States.
  - a. Noted communities: Shakers, Economists, Amana, Inspirationists, Icarians, Bethel, Perfectionists, Zoarites, Brook Farm.
  - b. Facts concerning them taken from Chas. Nordhoff's "The Communistic Societies of the United States."—*Harper & Bros., New York.*
    1. Eight societies, constituting not less than seventy-two communes.
    2. Oldest has existed over ninety years.
    3. Numbered in 1874 about 5,000 persons, owned probably 180,000 acres of land, with estimated wealth, \$12,000,000.
    4. Enjoyed a greater security, more comforts, less want and demoralization, better schools, less exposure for women, the aged and infirm, than the surrounding population.
    5. Icarians are French; Shakers and Perfectionists, American; the others are German.
    6. All have some form of religious belief as their bond. The Icarians reject Christianity.
    7. Perfectionists oppose family life.

8. At Icaria and Amana (Iowa Societies) they eat in a common dining-hall.
9. The Shakers and Rappists are celibates. The Icarians forbid celibacy.
10. They are all exclusive.
11. Agriculture is the industrial base, with the exception of the Perfectionists.
12. Most of the societies are pure democracies.

### Illustrative Quotations.

“That communistic societies will rapidly increase in this or any other country, I do not believe. The chances are always great against the success of any newly formed society of this kind, but that men and women can, if they *will*, live pleasantly and prosperously in a communal society is, I think, proved beyond a doubt; and thus we have a right to count this another way by which the dissatisfied laborer may, if he chooses, better his condition.” — *Nordhoff*.

“All communistic societies are evidently suffering from the difficulties due to the absence of family life, from the increasing spirit of personal independence which carries away the younger members of the organizations, and the want of that executive ability which distinguishes the successful manager in private enterprises.” — *Laughlin*.

### Examination of the Co-operative System.

1. The essence of co-operation is the combination in the same individuals of the functions of labor and capital.
2. Forms of co-operation.
  - a. Productive.
  - b. Consumptive or distributive.
3. Claims of the System.
  - a. A greater share of the wealth-product to the laborer.
  - b. Secures to the laborer greater independence.
  - c. Do away with the friction between laborer and capitalist, as seen in strikes, boycott, etc.
  - d. The laborer would be incited to greater industry.
  - e. Would encourage frugality and the disposition to save.
  - f. Would be a saving in tools and materials.
  - g. Would exert a moral influence that our present system fails to develop.



4. Difficulties of the System.
  - a. Failure to bring the requisite intelligence and business skill to bear.
  - b. Lack of sympathy for the movement, especially in the United States.
  - c. Unsteady employment and heterogeneous character of our population.
  - d. The masses are generally poor financiers and poor book-keepers.
  - e. Venality and corruption among the masses.
  - f. Lack of co operation among the various co-operative societies.
  - g. Little encouragement in our legislation.
5. A study of co-operative enterprises in the United States, Chapter VII. of Richard T. Ely's "The Labor Movement in America."

#### Illustrative Quotations.

"The marked effect of co-operation, as is shown amongst the workers in this factory, would convince any one that it works good results in the whole *morale* of the man. So much does every one in the factory feel interested that it requires no watching, no ordering, no admonitions, but all are on the alert to do and keep everything the best."—*J. R. Ledyard, Kentucky Railroad Tobacco Co. of Covington.*

"I shall be heartily glad to see the working classes rise to the height of the occasion, and vindicate their right to rule in industry by showing their power to do it. But meanwhile it must be distinctly understood that nothing costs the working classes so much as bad or commonplace conduct of business; that industry must be energetically, economically and wisely managed, no matter who is to do it; and that co-operation will be successful only as it results in the production of equally good articles at equally low prices, as those produced under entrepreneur management."—*F. A. Walker, Pol. Econ., p. 348.*

#### Private Property.

1. The right of private property is the main principle that regulates the distribution of wealth in our present society.
2. The right of private property is the right of dominion in a person over a thing to the exclusion of all other persons.

3. Evolution of this right.
  - (1) Personalty alone first subject to this right.
  - (2) History shows the earliest land-holdings were communistic.
  - (3) Priority of occupation gave a weak title of ownership, which was ripened by prescription.
  - (4) Legislation finally sanctioned custom.
  - (5) Institution remains on the basis of convenience, policy and convention.
4. The right of private property involves:
  - (1) The right to use and enjoy.
  - (2) The right to destroy.
  - (3) The right to sell, lease or loan.
  - (4) The right to dispose of by gift.
  - (5) The right to dispose of by will.

#### Illustrative Quotations.

“The individual right of property, as appears from a closer study of ancient law, seems to be a comparatively modern conception. Ancient law knows next to nothing of individuals, it is concerned not with individuals, but with families: not with single human beings, but groups. It is more likely that joint ownership and not separate ownership prevailed in primitive society.” — *Fishback. El. Law, p. 34.*

“The laws and conditions of the Production of Wealth partake of the character 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 institution solely. The distribution of wealth depends on the laws and customs of society, The rules by which it is determined are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries, and might be still more different, if mankind so chose.

“Private property, as an institution, did not owe its origin to any of those considerations of utility which plead for its maintenance of it when established.” — *J. S. Mill. Pol. Econ., p. 155.*

“All property is founded on adverse possession ripened by prescription.” — *Savigny.*

“The true basis of the right of property is not an instinctive

bias towards the institution of property, but a presumption arising out of the long continuance of that institution *that everything ought to have an owner*. The occupant, in short, becomes the owner, because all things are presumed to be somebody's property, and because no one can be pointed out as having a better right than he to the proprietorship of this particular thing." — *Sir Henry Maine*.

"Let our final and clenching argument be that which we urged in favor of the right to give; to-wit, the fear of irretrievably injuring productive activity by preventing owners from disposing of their property for the benefit of their children. For the honor of human nature, it must be said that there are very few men in the world who work and save far less for themselves than for others. If we compel them to think of themselves, they will work less and spend more. By depriving men of the right of disposing of the fruits of their own labors, we should break one of the most powerful springs of production." — *Gide*.  
p. 433.

### Questions.

1. The right of private property is based upon labor by Bastiat. Examine this theory.

2. A theological school maintains that the right of property is based on Scripture. "God the grantor, Adam the grantee; the earth, the thing granted, in consideration that the grantee should subdue the earth, etc." Examine titles on this theory.

3. Could the state lawfully abolish private property rights, laws of inheritance, etc.?

4. On what grounds can you defend collateral inheritance?

5. Cæsar in speaking of the customs of the Germans wrote that no one owned certain lands, but the magistrates each year allotted each tribe as much as seemed best, and compelled them the next year to pass over to another. What causes can you suggest for this system of land-tenure?

6. Explain briefly the Feudal System. What caused its decline?

7. What is meant by allodial tenure?

8. Give what arguments you can for the legitimacy of landed property.

**Readings.**

Mill. Pol. Econ., Laughlin's Edition, pp. 155-174.  
 Gide. Pol. Econ., pp. 308-464.  
 Bullock. Intro. to Study of Ec., pp. 450-468.  
 Henry George. Progress and Poverty.  
 Walker. Pol. Econ., Adv. Course, pp. 341-351.

**The Various Classes of Sharers.****1. Walker's classification.**

NAME.	SHARE.	WHY HE GETS IT.
(1) Capitalist.	Interest.	For saving or abstinence.
(2) Landlord.	Rent.	Difference in productivity of soils.
(3) Entrepreneur.	Profit.	What he saves to production by his mastership.
(4) Laborer.	Wages.	"Residual Claimant."
(5) Minor Sharers.	Stipend.	Services rendered to the other sharers.

**2. Gide's classification.**

NAME.	SHARE.	EXAMPLE OF.
(1) Autonomous Producers.	Fees.	Peasants. Land-owners. Shop-keepers. Liberal Professions.
(2) Employers and Capitalists (includes the entrepreneurs.)	Profit.	Capitalists.
(3) Proletariat.	Wages.	Workmen. Domestic Servants. Public Servants.
(4) Annuitants, or people of independent means.	Income or interest.	House-renters. Stock-holders.
(5) Indigent, or pauper classes.	Alms.	Partakers of public or private charity.

**The Capitalist or Employer.**

1. Who is the capitalist in strict economic meaning?
2. Objections given by socialists to capitalist class.
3. Functions of entrepreneur and capitalist distinguished.
4. Shall the entrepreneur be retained in our industrial system? Why?

**Elements in Profits.**

1. The interest on capital (remuneration for saving).
2. Premium of insurance (element of risk).
3. The wages of the employer's labor (initiative, direction, and control).

**The Question of Interest.**

1. Tendency is to decline. Causes.
2. How low can the rate fall ?
3. Causes of different rates in the same market.
  - a. Degree of risk.
  - b. Imperfect competition in the money market.
  - c. Disinclination of capital to emigrate.
4. Should the state fix a maximum rate of interest ? (Usury.)

Arguments *pro* and *contra*.

- (1) Capital should be treated as any other commodity. Let the law of demand and supply operate.
- (2) Usury laws are evaded, hence they put a premium upon dishonesty and trickery.
- (3) The law should protect the borrower, since he is at the mercy of the lender.
- (4) Trade would be benefited by a greater plentifulness of capital, and by greater ease of borrowing.  
(Consult the subject "Usury" in Cyclopaedia or dictionary of Political Science.)

Is there a law of profits ?

Profits will depend upon the amount of mastership, skill, and intelligence brought into an enterprise. Through this superior ability the gross income will be determined and also the residuum or net income by reduction of expenses, etc., to a minimum.

**The Landlord.**

1. Gide discusses this sharer under the title, "The Right to be Idle."
2. The right is justified by the recognition of private property in lands.

3. Dr. Spahr's essay on "The Present Distribution of Wealth" presents some interesting facts: (1) 2,650,000 persons in the United Kingdom own 10,700,000,000 of private property, while 6,000,000 families, three-fourths of the population, have no registered property whatever. (2) Less than two per cent of the families of the United Kingdom hold three times as much private property as all the remainder, and 93 per cent of the people hold less than 8 per cent of the accumulated wealth. (3) In 1893, out of 330,000 families in New York City, two-thirds were property-less. (4) One per cent of our families receive nearly one-fourth of the whole income of the country; 50 per cent receive barely one-fifth.

4. Rent defined.

Rent is the remuneration received by the land-owning class for the use of native and indestructible powers of the soil, or as it might be expressed, for the use of natural agents.

— *Walker*.

Rent is the measure of difference in desirability between better lands and marginal lands.— *Davenport*.

5. The law of rent.

(1) Economic rent arises out of the differences of productivity of soils under cultivation at the same time, for the purpose of supplying the same markets.

(2) The amount of these differences determines the rent. Illustrate by hypothetical case.

Query: 1. How far does this theory conform to actual conditions?

2. Does the single tax advocate argue that what the state should take is the economic rent?

3. Suppose the earth were a flat surface and of uniform fertility, would there be any economic rent?

Note:— A good discussion of the theory of economic rent with arguments for and against will be found in *Walker's Advanced Political Economy*, pp. 394-433.

**The Wage-Earner.**

1. Kinds of wages.
  - a. Real — computed in the necessaries and comforts of life.
  - b. Nominal — computed in money.
2. Theories of Wages.
  - a. The Productivity theory.
 

“Demand for labor is evidently a demand for the results of labor — for the commodities which it produces. The demand for labor must then find a limit at the point where the wage payments approach equality with the increase in the value of the product due the laborer. We come, therefore, to the general proposition that wages are at the maximum limited by the value of the laborer’s own contribution to the value of the product.” This theory is supported by Walker, Gide, Davenport, Jevons and others.
  - b. The theory of the Law of Brass.
    1. “Wages must be regulated by the value that is absolutely necessary for the support of the laborer and his family, or more generally for the subsistence and propagation of the laboring population.
    2. This theory makes labor a commodity, and demand and supply, and cost of production apply to it as to any other commodity.
    3. Objections to the Law of Brass.
      - a. Laborer is placed in a helpless condition. If he works harder or better, what of it?
      - b. To reduce his expenses would make his lot harder.
      - c. Progress in production would not benefit him.
      - d. Does not explain differences in wages in the same or different countries.
      - e. Does not explain why wages are higher to-day than they were a century ago.
  - c. The Theory of the Wages Fund.
    1. This theory claims that there is a determined fund of capital to be paid to laborers, and their wages is the ratio of numbers of workmen to the amount to be distributed.

## 2. Objections.

- a. The dividend is not pre-determined. It must be the aggregate of individual sums, or nothing. Does each employer have a wage-fund of his own?
- b. The divisor is not represented by the total population of the country.
- c. This theory demands that wages can vary only as one of two factors varies, both of which may be considered as unknowns.

Note: For complete discussion of the Wages-Fund doctrine, consult J. E. Cairnes' Political Economy, pp. 149-188.

**The Improvement of the Wage-Earners' Conditions.**

- 1. Strikes.
- 2. State-interference (Factory legislation, etc.)
- 3. Co-operation.
  - a. Profit-Sharing.
  - b. Trades-Unions.

Note: Consult Gide's Pol. Econ., pp. 506-525; Cairnes' Pol. Econ., Part II, Chapters III and IV. Walker's Adv. Pol. Econ., pp. 375-394.

**Illustrative Quotations.**

"For we may ask, in virtue of what right does the master appropriate for himself a value which is the product of the labor of his workmen? The master replies, that the article produced is altogether his work, for without his initiative it would not exist at all; if he has not made it, at any rate he has *had it made*. He first conceived the *idea* of it, and that is the primordial and essential act of all production; he, too, has supplied the means of executing it. Who, then, should have more right to the article than he has?" — *Gide*.

"The wages-earner and the master are a pair of characters whose lot is altogether different, but whom fate has inseparably bound together; there is little love lost between them, but they can not obtain a divorce. The man who possesses nothing but his arms can produce nothing whatsoever, unless he receives an instru-



ment of production; but, under the present economic organization, no one can supply him with this instrument save the land-owner or the capitalist."—*Ibid.*

"The question of wages is confused, as are many other economic questions, by a misunderstanding of the meaning of *demand* and *supply*. To say that the value of any commodity is fixed by the equation of demand and supply is a correct and a safe enough proposition. But to suppose that the more laborers there are, the lower wages will be, or that the fewer hours or the more lazily they work, the higher wages will be, is grossly to pervert the meaning of the demand and supply doctrine. The demand for labor, and the wages at which this demand will employ the labor, depend upon the value of the product which the laborers will bring to the employer. If a farm hand adds to the crop by only one bushel of wheat a day, it is certain that his wages will not stand at two bushels of wheat per day.

"So if the population of any one city or of the world should double, wages would not fall by a half, unless the average productiveness of labor fell as a result of the overcrowding and of the attendant disadvantages of opportunity."—*Davenport, El. Econ., p. 111.*

### Questions.

1. Who would be the sharers of distribution in a socialistic system? How would each one's share be determined? In a co-operative system?
2. Why is a system where the autonomous producer is numerous a most favorable system for the distribution of wealth?
3. Karl Marx said that such a system is only compatible with a narrow and limited state of production and of society. Comment.
4. What has caused the independent workers to decrease in numbers? How long will this continue?
5. Walker makes profits (share of entrepreneur) conform to some law as rent. Explain.
6. Ricardo held that the rate of profits (interest) always varies in inverse ratio to the rate of wages. Examine the soundness of this.
7. Why is it not economic to say that interest is money paid for the use of money?

8. "Rent forms no part of the price of agricultural products." Prove the proposition.

9. Suppose land-lords should become philanthropic and remit their rents; would this act have any influence on price?

10. What is "ground-rent"? Does the Ricardian law of rent apply at all?

11. Do rents tend to rise or fall with increase of population? With improved machinery?

12. In the discussion of rent is the cost of transportation to market taken into account?

13. Shall we say that the rise in prices results from the cultivation of the poorer land, or that cultivation results from the rise in prices?

14. You have heard it said that wages is purely the result of contractual relation between the employer and laborer, and follows supply and demand. What objections can you give?

15. What are the benefits of trades-unions to the laborer? What dangers, if any?

16. Are strikes justified? Are they generally beneficial?

17. In what ways has the state interfered in the interests of the wage-earner?

18. What objections can you state to organized private charity?

19. Why are the wages of women usually low?

20. What were the English Poor Laws?

(A very complete bibliography of American and foreign writings on general and special subjects in Political Economy will be found in "Bullock's Introduction to the Study of Economics," pp. 485-501.)

## TAXATION.

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### Definitions.

A tax is a governmental demand upon the resources of persons, whether natural or artificial.

A rate is proportioned when the same per cent is levied on all property.

A rate is apportioned when the total amount to be raised is ascertained and then distributed, share for share, on each unit of the base.

A tax is progressive when the rate increases more rapidly than the base.

Customs duties are indirect taxes levied on the goods imported into or exported from certain countries.

Tariff rates are either (1) ad valorem, the per cent computed on the value of the goods as shown by invoice, or (2) specific, being computed on some unit, per yard, ton, gallon, etc., irrespective of the value of the goods.

Impost is a general term for any tax, but the tendency is to make it synonymous with indirect taxes.

Excises (English) or Internal Revenue (American) are indirect taxes levied on domestic manufactures.

A tax is said to be shifted when the tax-payer reimburses himself from some one else. The final incidence of the tax is the falling of the burden upon some person who does not shift it.

### Direct and Indirect Taxes Distinguished.

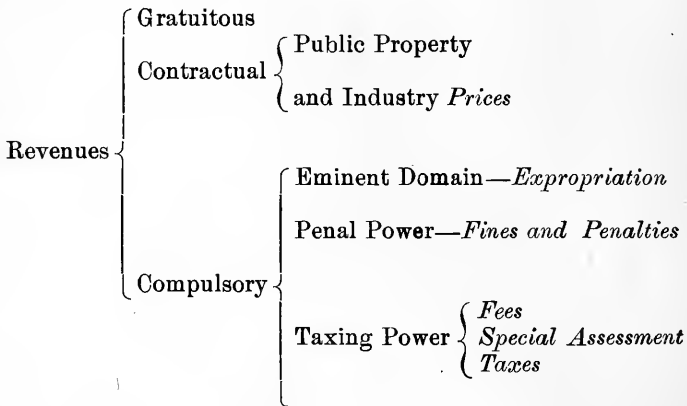
1. A direct tax, in the expectation of the law-maker, makes the taxpayer the tax-bearer. No shifting of the tax is intended.
2. Direct taxes are such as are regularly laid according to some fixed fact — as of personalty, rank, earning, property, etc., — and are assessed according to some list or roll.

### Adam Smith's Canons of Taxation.

1. The subjects of every state ought to contribute to the support of the government as nearly as possible in proportion to their respective abilities.

2. The tax which each individual is bound to pay ought to be certain, not arbitrary.
3. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. Every tax ought to be so contrived as both to take and to keep out of the pockets of the people as little as possible over and above what it brings into the treasury of the State.

### Classification of Revenues (Seligman.)



### Principal Theories of Taxation.

1. Benefits-theory.
2. Faculty or Ability-to-Pay theory.

### Some Forms of Taxation and their Merits.

1. General Property tax. (Realty and personalty).
2. Import and Export duties.
3. Tax on products of domestic manufacture.
4. Tax on expenditures.
5. Tax on incomes.
6. Single tax on land values.
7. Inheritance taxes.

8. Tax on doors and windows.
9. Tax on trades and occupations (licenses).
10. Capitation tax.

### **The Defects of the General Property Tax.**

1. Lack of uniformity, or inequality of assessment.
2. Lack of universality, or failure to reach personal property
3. Incentive to dishonesty.
4. Double taxation (question of exemption of debts).
5. The tax regressive.

### **Consideration of the Single Tax on Land Values.**

Defects suggested by Prof. Seligman.

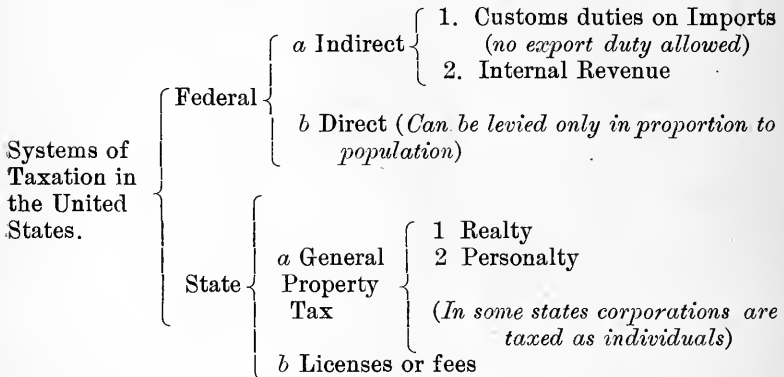
1. Fiscal.
  - a. No reserve power which can be drawn on in time need.
  - b. Shrinkages or deficits can not be made good by increase of another class. No elasticity.
  - c. Intensifies the inequalities resulting from unjust assessments.
2. Political.
  - a. Means a total abolition of all customs duties, whether for protection or for fiscal purposes.
  - b. Render impossible to use the taxing power as political or social engine; e. g., bank notes, liquors, oleomargarine, etc.
  - c. Would take away the sense of the citizen's obligation to the government.
3. Ethical.
  - a. Not an equitable tax. It exempts too many.
  - b. The "unearned increment" theory applies to many other values besides land.
 

"On what possible theory of justice shall we tax the man who has invested \$100,000 in land which the next year appreciates fifty per cent, and on the other hand exempt the man who has invested \$100,000 in the stock of the sugar trust which the

next year may also enhance fifty per cent? Why should the earnings invested in land be taxed and the earnings invested in the sugar trust be wholly untaxed?

4. Economic.

- a. Would work a hardship in new communities.
- b. Would prove an inadequate fiscal system.
- c. Its administration would be next to impossible.



**Questions.**

1. The chief objections to the "benefits theory" of taxation is (1) that benefits can not be quantitatively measured, hence we have no base to compute the percentage. (2) that if benefits or protection was the base of taxation, the poor man should pay more than the rich man. Comment.

2. How can the United States levy direct taxes? Why was the income Tax of 1894 declared unconstitutional?

3. Does the National Government and the State Government in the United States maintain entirely distinct methods of taxation?

4. What is double-taxation? Illustrate. Is double taxation illegal or simply not economic?

5. "The taxation of a mortgage debt in the hands of the mortgagee, and also of the property in the hands of the mortgagor, is not double taxation."—*Meyer vs. Dubuque County, 49 Iowa, 193.*

How would an economist view this decision?

6. Upon whom is the incidence of the tax in the following cases: Duties on imports? Tax on inheritances? Land tax? Poll tax?

7. Upon what goods does the United States levy taxes under the internal Revenue System?

8. A complete divorcement of State and local taxation is advocated by some to cure the evils of our general property tax system. How would this be done? What are the merits?

9. Should assessors be township or county officials?

10. Investigate the Income Tax Systems of England and Prussia, and compare them. What have you to say in favor of the Income Tax?

11. What is meant by the Nationalization of Land?

12. The Single Tax School of Henry George is oftentimes opposed on the ground that its principles would result in the confiscation of land and the destruction of private property rights. Do you consider this a serious objection?

13. What is the justice of an inheritance tax?

14. State different methods or bases for taxing corporations.

#### Illustrative Quotations.

“If we sum up the inherent defects, it will be no exaggeration to say that the general property tax in the United States is a dismal failure. No language can be stronger than that found in the reports of the officials charged with the duty of assessing and collecting the tax.”—*Seligman, Essays in Taxation, p. 36.*

“Another weakness of the general property tax system is its lack of universality or a failure to reach personal property. It is a strange fact that the taxation of personal property is in inverse ratio to its quantity; the more it increases, the less it pays. It is scarcely necessary to give figures to substantiate these statements, but a few may be of interest. From 1860 to 1880, real estate in the United States increased from 6,973 millions of dollars to 13,036 millions, while that of personal property decreased from 5,111 to 3,866 millions. In 1890 real estate had grown to 18,956 millions, while that of personal property was 6,516 millions, less than the figures of thirty years before. In California, in 1872 personal property was assessed at 220 millions; in 1880, 174 millions; in 1887, 164 millions; a

net decrease in fifteen years of 56 millions. Real estate increased during the same period from 417 to 791 millions. In Illinois, in 1882, personal property paid 22% of the taxes; and in 1894, only 17½%. In Cook county, including Chicago, personal property paid only 14% and in Kankakee county only 11%. In 1893, in the state of Iowa, although real estate valuation increased over the preceding year by 32 millions, the assessed valuation of personal property actually decreased. In some instances, the City of Brooklyn for example, personal property paid a little more than 3% of the whole tax on property, and in 1895 it paid but 1.23%. These striking figures become ridiculous when it is remembered that in the present civilization the value of personal property exceeds that of real estate as understood by the taxing power. And there is not much disagreement as far as legal exemptions are concerned between real and personal property in the various commonwealths. Thus it seems that the more differentiated an industry becomes and the more predominant the personalty, the less does the latter contribute to the public charges. The general property tax thus sins against the principle of the universality of taxation even more than against the principle of uniformity."

"The economic theory upon which the demand for a single tax is based may be summed up as follows: Land is the creation of God. It is not the result of any man's labor. No one, therefore, has a right to own land. Increase in the value of land like the land itself is not the result of any individual effort. It is an unearned increment which properly belongs to society. It, therefore, becomes the duty of the government to take what rightfully belongs to the whole community."

### Readings.

- "Principles of Political Economy." J. S. Mill, *Laughlin*, pp. 537-595.
- "Political Economy." Walker's Adv. Course, pp. 407-448.
- "Introduction of Public Finance." Carl C. Plehn. (A splendid book for beginners.)
- "Essays in Taxation." E. R. Seligman. (An exhaustive work. May well follow Plehn.)
- "Public Finance." H. C. Adams.
- Note: A splendid bibliography on the subject of taxation will be found in Seligman's Essays.



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