

OUTLINES OF POLITICAL ECONOMY

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PREFACE.

ON a first perusal, all parts of this book in small print and Chapters XII and XIII should be omitted; and, in the first instance, only a hasty reading of Book I would be advisable.

The diagrams are intended only for those who find their understanding aided by diagrams. In every case, these symbolic demonstrations are merely supplementary to the argument in words, which has been made complete without them.

My indebtedness to Dr. Marshall's teaching will be apparent throughout. I have also to thank Mr. C. F. Bickerdike for revising the proofs of the first edition, Professor Bowley for many helpful criticisms when I was preparing the second edition, Professor Bastable, Professor Cannan and Professor Gonner for suggestions as regards the list of books with which these outlines conclude, and my wife for help with the proofs and in other ways.

S. J. CHAPMAN.

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*Sections marked * (which are in small print), and chapters and divisions indicated similarly, might be omitted on a first reading.*

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BOOK I.

SCOPE AND METHOD.¹

CHAPTER I.

NATURE AND SCOPE OF POLITICAL ECONOMY.

Definition.—"Political Economy" is derived from the three, Greek words, *πόλις*, a state or organized community, *οἶκος*¹ a house or home, and *νόμος*, law. It means, therefore, according to its derivation, the law of household management in its application to communities. Whether the old term "political economy" in its original significance appropriately designates the modern study of which an outline will be given in this book, will become apparent to the reader as he or she proceeds. To-day political economy, or, as it is sometimes called, economics, treats of all the actions of human beings in relation to wealth, including the attitude of people to wealth, the responses of Nature to their attacks on her resources, and the conditions of their productive efficiency, as well as the making, exchanging, sharing and using of wealth. "Wealth" for the present I shall leave undefined. For preliminary purposes all my readers have a sufficiently accurate conception of what wealth is.

¹ *N.B.*—In the preface I have indicated portions of this book—in addition to those in small print—which might be omitted on a first reading.

Political economy, as its definition makes plain, is a social study. It may be classified as a branch of sociology, and sociology is the study of the natures and activities of individuals, regarded as members of communities, and of the relations between them. A study, or systematized body of knowledge, is defined by (1) its data and (2) its point of view. The data of sociology may be broadly described as all social facts. The data of political economy are all those social facts which have reference to wealth.

The two departments of sociology which have been most systematized are political economy or economics, and politics. Of these two, economics is the most capable of being systematized and is the most highly systematized. Why, I shall explain later (p. 19). The rest of sociology is as yet only imperfectly systematized. Much material has yet to be collected, and much classification has yet to be attempted, before any appreciable number of important unifying generalizations can be looked for.

Economics, we have already remarked, is differentiated from general sociology by the fact that the activities which it recognizes are those only which have reference to wealth. Politics is distinguished similarly by the reference of its data to government. Economics and politics overlap. Much human action within communities has reference at the same time to wealth and to government—public finance and factory legislation, for instance, are subjects which relate to both.

Positive and normative sciences and arts.—So far I have avoided the term "science". I have done so for two reasons. The one reason is that all systematized bodies of knowledge are not sciences. Some are what are ordinarily termed "arts". The other reason is that "science" is an ambiguous term, sometimes used in a narrow sense, but sometimes in a broad sense to cover all the results of thinking about facts from whatever point of view the thinking proceeds.

There are at least two possible points of view, namely the *positive* and the *normative*. When we assume the positive point of view, we take the facts of the universe as they are. When we assume the normative point of view we deal not with facts, as facts are ordinarily understood, but with the ideals of facts, or *standards*; and, though intangible, these standards, be it understood, are as real as tangible things. "Norm" is derived from the Latin word *norma*, meaning a rule or standard. Ethics (or the science of what conduct ought to be and why) and æsthetics (or the science of what perfectly beautiful things ought to be like and why) are normative sciences. All the so-called natural sciences are positive sciences.

Before considering what a science aims at and how scientific investigation is conducted, it will be desirable to define an art. The constructor of an art assumes that the attainment, if possible, of a given end has been decided upon, and tries to lay down a logical scheme of rules for its attainment. Navigation is an art; and much of the writing grouped under the heading "politics" really treats of the art of Government. The end, of which the attainment is desired, may have reference to some particular need; or it may be the ideal defined as a result of normative inquiries. Arts are sometimes known as practical sciences when attention is focused on their scientific side.

It remains to analyse the character of positive science; and much that will be said holds equally of normative science. The object of every devotee of positive science is to understand a class of facts. He must first, then, think of his facts as a class, that is see them as similar in certain respects. Thus the world of space is the scope of physics: spatial facts make up the universe for physicists. But the physicist rejects all except certain aspects of these facts; he notices only their aspects as matter (however that may be interpreted) and

motion. Human beings are part of the data for biologists, but merely as living organisms. As sentient and self-conscious, human beings are also facts for the psychologist; as engaged in governing and being governed, they are facts for the political scientist; as makers and sharers of wealth, they are facts for the economist. It is apparent at once that a flash of insight which reveals a unifying aspect of apparently diverse things is the pre-requisite of a science. The reactions of human intelligence on facts, as they are directly presented, create the universes of science.

After forming his provisionally appropriate, unifying idea of the facts, the scientist has to *observe, classify, and explain* them. The operations of observing, classifying and explaining are by no means mechanical. They do not consist in just looking at the facts, sorting them according to their outstanding similarities and then waiting for the laws to leap out like Jack-in-the-box. The scientist does not *first* observe, *then* classify on the results of observation, *then* gather up laws which have, as it were, projected themselves. On the contrary, every process in observing, classifying and explaining, reacts on every other, and every one necessitates minute investigation under the guidance of ideas. Explanation almost invariably compels a revision of classification, and even of the results first reached by an analysis of the facts. Sometimes, indeed, the nature of the facts is discovered by deduction from the laws connecting them. Thus it is the most advanced inquiries into the laws uniting physical facts which have given rise to the latest theories as regards the substance of the facts themselves. Again, in classifying we must have in mind what are the essential features of the facts from the point of view of the science, as opposed to their external resemblances, and also we must have in mind what are the lines of their explanation. Explanation broadly refers to the enunciation of *laws*. A law is a generalization which links one change

with another in the system of facts. Sometimes "law" is used more broadly, but it is convenient here to confine its reference to the relation commonly known as that of cause and effect. To sum up with contrasts, which like all striking contrasts are not exactly true, though they may be illuminating, observation detects uniformity in facts, explanation seeks uniformity in action, while classification aims at the arrangement which brings the two sets of uniformities into the most convenient correspondence with one another.

Political economy embraces a positive science, a normative science and several arts.—It will already, no doubt, have begun to dawn upon the reader that political economy is not one unified body of knowledge, but several bodies of knowledge which may be distinguished by outlook, aim and approach. These several separate but kindred studies I shall define next, and also some of the more obvious relations between them. Later we must return to our *prolegomena* and ask the question, Is a *science* of society possible at all? Provisionally we shall assume that this question must be answered in the affirmative.

First we must remind ourselves that economic facts can be regarded from two points of view, namely, the normative and the positive. As on one side economic facts are a part of human conduct, the normative science of political economy is clearly a branch of ethics. We must separately recognize, then, the *positive science of economics* and *economic ethics*.

Again, because social facts cover human conduct which may be directed to different social ends, various arts of political economy are possible. Much of the literature of economics is in the form of the art. A writer assumes, for instance, that sweating ought to be suppressed and then demonstrates how he thinks it might be suppressed. Again there is the art of business envisaged by certain writers.