PRINCIPLES OF ECONOMICS

BY

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PREFACE

SEVERAL years of experience in teaching elementary economics have convinced the writer that the best textbooks hitherto available, although excellent in many respects, have certain characteristics which make the subject unnecessarily difficult for beginners. Among these characteristics are a serious lack of unity and continuity of exposition and a tone of unreality in the discussion of value and distribution. These defects of style and exposition tend to bore and confuse immature students, and as a result they lean too heavily upon lectures and class discussion and devote too little time to study. Consequently they gain only a superficial knowledge of their subject — the hours in class being too few to cover the field thoroughly.

The present book represents an attempt to write a text in elementary economics which college students will find so readable and intelligible that instructors may reasonably expect them to have read and understood the assignments before coming to class. In trying to achieve this purpose the author has departed from the conventional method of dividing the subject into a number of books or parts, each representing a more or less complete treatment of a distinct division of the field, such as production, exchange, distribution, and so on, and has adopted a novel method of approach which should perhaps be explained. The central idea upon which the whole arrangement of the book is based, is this:

The subject of elementary economics may be developed in a logical and orderly way, with a natural sequence of chapters, each chapter growing out of and developing further the preceding discussion, somewhat in the way that the plot is unfolded and developed in a novel or play. To the extent that this logical and orderly development of the subject can be realized there will be achieved unity and continuity of exposition, a prime requisite if the student is to be interested and informed instead of being merely bored and befuddled.

As a further explanation of the order of sequence of the chapters and as an aid to the student, the following summary of the book is presented, with the numbers of the respective chapters covered by the summary indicated in parentheses:

(1) Men want more goods than are freely provided by nature and have learned to labor to produce them. (2) Goods being desirable and scarce and labor being irksome, men have contrived in various ways to improve methods of production — to increase the quantity of goods produced per hour of labor. (3) Division of labor, representing a great improvement in methods of production, made exchange and the use of money necessary and gave rise to price problems. (4) Production for sale or exchange brought the problem of business organization and business profits. (5–6) Consumers buying goods with money incomes and business men buying to sell at a profit are deeply concerned with market price and its interrelations with demand and supply, interrelations which cannot be understood without careful study. (7) A special and important price problem is that of the price of goods used by business men for business purposes, called in this book producers' goods, and this leads to a study of demand schedules for producers' goods. (8) Under competitive conditions a strong tendency exists for average costs of production in any industry to equal the market price of the product, leaving the average business man without profit. (9) In extractive industries, such as agriculture, costs of production per unit of product tend to increase with expansion of output as a result of differences in the qualities of land and the operation of the law of diminishing returns. (10) Out of conditions of increasing cost emerge the problem of the rent and price of land, (11) the problem of indirect costs in agriculture, and (12) the problem of the unearned increment, or special taxation of land. (13) To some extent conditions tending to bring increasing costs are found also in manufacturing industries; but here economies of large-scale production may more than offset the tendency to increasing cost and bring about decreasing costs as the output expands in individual plants and in the industry as a whole. (14) In manufacturing and some other industries economies of large-scale production and heavy indirect costs tend to bring about exceedingly sharp competition which may prove ruinous to the competitors. (15) As a result business men tend to combine to restrict competition or to establish monopolies. (16) Since combinations in restraint of trade and monopolies tend to re-

strict output and to raise prices above the competitive level, they have been prosecuted under state and federal law and in some cases destroyed. (17) But public utility monopolies for special reasons are tolerated and encouraged by government, subject to government rate regulation. (18) In railroad transportation partial monopoly is permitted and rates are regulated by government to prevent both ruinous competition and monopolistic extortion.

(19) Wages constitute an important element of costs in all industries, and the main source of income of the mass of the people. Wages represent prices paid for one great class of producers' goods, and wage determination represents, therefore, merely a special application of the principles discussed under the subject of demand schedules for producers' goods, with some complications. (20) Differences in wages arise mainly from differences in the nature of the work to be performed and differences in the natural ability, training, and experience of men. (21) Conditions of labor and wages may be substantially altered by labor organization and (22) by labor legislation. (23–24) Interest on loans or capital is another important cost item of business men and a source of great confusion. Comparatively few persons understand why interest is paid or what determines the rate. Fundamentally interest represents a premium on present goods in terms of future goods.

Certain factors not yet discussed have an important bearing upon the production of goods, the prices of commodities, and the four shares in distribution — profits, rent, wages, and interest. These factors include (25–27) the quantity and kinds of money used, (28–30) banking and regulation of banking, (31) insurance and speculation, (32–35) domestic and foreign exchange and international trade, and (36–38) theories of the proper functions of government and theories and systems of taxation. In addition to the various problems and evils of the present industrial system that have already been considered there may be noted (39) certain special problems in agriculture that deserve particular consideration, and (40) evils of various kinds which may be eradicated by concerted efforts of the people in the interest of the general welfare.

The critical reader will find in this book a restatement and a modification of orthodox doctrines rather than a new system of economics. What contribution to economic theory it may contain will be found mainly in the chapter on demand schedules for producers' goods, and the application of the doctrines of that chapter to the subjects of profit, rent, wages, and interest.

It is needless to point out that the author has borrowed much from other writers on economics, but he desires to acknowledge in particular his debt to the published works of Professors T. N. Carver, Irving Fisher, W. Z. Ripley, and F. W. Taussig, and to the classroom instruction of Professors Bullock, Gay, Ripley, and Taussig, at Harvard University. The writer is under obligation also to Professor E. S. Furniss, of Yale University, who read the entire manuscript and offered numerous helpful suggestions for improvement, and to Helen B. Rufener for aid in preparing the manuscript for the printer.

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