

ELEMENTARY ECONOMICS

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INTRODUCTION

There never was a time when men needed to think so seriously about the problems of national welfare as the present. It is plainer than ever that this is an economic question, that is, a question of economizing. It is the purpose of this book to examine the economic foundations of our national welfare and to point out some of the simpler and more direct methods of strengthening these foundations, to the end that our nation and all nations that aim at democracy and justice may prosper more and more.

In order that there may be real improvement our people must themselves understand the principles upon which national prosperity rests. People who do not govern themselves, but rely upon rulers to govern them, may ignore these questions; but people who rule themselves have no one to depend upon but themselves. They must therefore know for themselves the leading principles of this great subject.

The time to begin studying this subject in a systematic manner is when we first begin to think about public questions—that is, in early youth, for our youth are thinking about public questions and we could not stop them even if we wanted to. Much time is lost and much loose thinking results from postponing this study too long. Opinions are formed too hastily and with too little information, and when once formed they are hard to get rid of. No study can possibly be more important than that which will even slightly reduce the number of hasty and ill-founded opinions and train our future citizens in the habit of careful, painstaking study of public questions and of looking on many sides of each one before reaching a conclusion concerning it.

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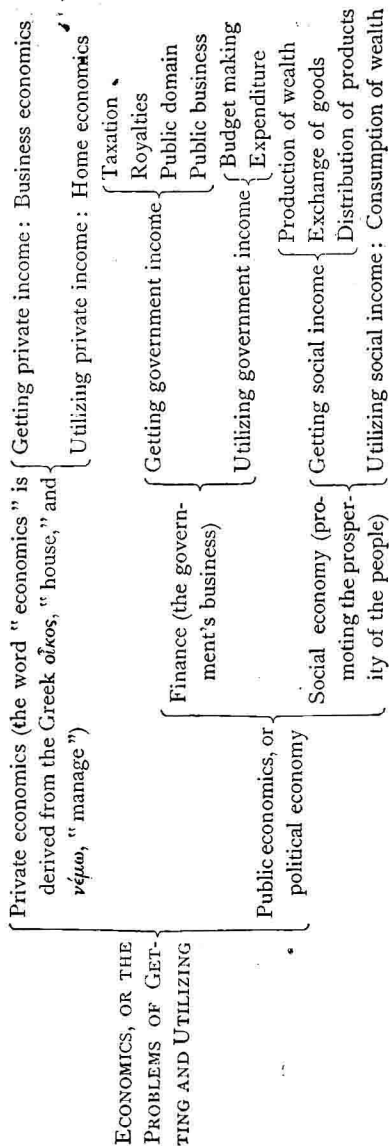
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ELEMENTARY ECONOMICS

PART ONE. WHAT MAKES A NATION PROSPEROUS



CHAPTER I

WHAT MAKES A NATION PROSPEROUS

Production and economy the basis of prosperity. A nation prospers on what it produces. It can continue to prosper only so long and in so far as it continues to produce, year in and year out, century after century and millennium after millennium. Production, however, is not enough,—the nation must also economize. In fact, production itself is a form of economy.

However much the nation produces, it prospers only in so far as it continues to produce, year by year, more than it consumes and wears out. When every year sees something added to the stock of durable goods, something additional produced for future years, there is an expansion and an accumulation of wealth; in short, there is prosperity. If at any time a nation begins consuming in a year all that it produces that year, the accumulations of the past quickly deteriorate and disappear, prosperity is gone, and poverty lies ahead.

Two primary factors in production. How much a nation can produce will depend primarily upon two things: first, upon its geographical situation, that is, upon how rich its land is in plant food, minerals, forests and power, how favorable its climate is, and how well it is situated for trade and transportation; second, upon its people, that is, upon how energetic and how wise they are in making use of their natural resources.

A nation's geographical situation is not easily changed; but the habits of the people may be changed, and these are even more important than the geographical situation. By reason of their energy and wisdom, nations have grown rich and great in the midst of very poor geographical surroundings. Others have grown poor in the midst of rich surroundings by reason of their lack of energy or their unwisdom. A nation can therefore control the factor

upon which its prosperity most depends ; which means that it can, in most cases, be as prosperous as it deserves to be, or that it must blame itself and not its geography if it does not prosper.

How to secure a full and wise use of the national energy, where millions of individual wills have to be persuaded and wisely directed, is one of the greatest and most important of all questions. The working energy of, say, a hundred million people is tremendous, but the opportunities for waste are also tremendous. Upon the wise utilization, on the one hand, or the waste, on the other, of that vast fund of energy hangs the question of the prosperity or the poverty of the nation.

Hard work is, of course, necessary, but mere hard work is not enough. The work must be wisely directed. This requires a vast fund of knowledge—scientific, political, and administrative. It also requires organization, in order that each individual may do that for which he is best fitted and also in order that different individuals may work with, rather than against, one another.

Importance of economy. The word "economy," in its widest sense, includes the using of all the energy of the people and the wise direction of that energy. For any person to be lazy or idle is a waste of that person's energy and is therefore uneconomical. To direct that energy unwisely is to waste it in another way and is also uneconomical. Both forms of waste prevent the highest prosperity of the nation.

What it means to economize. In its simplest possible sense, to economize is to choose among several different things that one would like to have, giving up the less important in order to have the more important. This choosing takes on many forms. One may have to choose between play and work, between different kinds of work or different kinds of play, or between different objects which one might get for one's work or one's money.

When you are asked to do a certain thing and you say that you have not time, you may be saying in a more polite way that there is something else which you consider more important than the thing you are asked to do. You are compelled to economize your time, since you have not time enough to do everything. You

must leave many things undone, and it is necessary, therefore, that you choose very carefully the few things which you think it most important that you should do with your limited time and energy. Similarly, when you say that you cannot afford a certain thing, you frequently mean that there are other things for which you think it more important that you spend your money. Not having money enough to buy everything, you must choose very carefully and try to get the few things which will be worth most to you in the long run. To do otherwise either with your time or your money would be to fail to achieve the largest prosperity or well-being. This is as true of a nation as of an individual.

Why we have to economize. When you say that you do not have time to do a certain thing or that you cannot afford to buy a certain object, you are stating two of the fundamental facts of life: first, the ever-present fact of scarcity; second, that you are an economic being, capable of recognizing the fact of scarcity and of guiding yourself accordingly. It is the fact of scarcity that makes it necessary for us to economize, and it is our wisdom that enables us to meet the situation and conform our lives to it. The fact that our time and energy are scarce or insufficient to enable us to do everything that we should like to do makes it certain that we cannot produce or earn everything that we should like to have. Besides, if we were to work all the time we should have no time to play; and everybody likes to play—that is, everybody worth mentioning. One of our many problems of economy is therefore that of choosing whether to deprive ourselves of the opportunity to play in order to get certain goods that we want, or to do without the goods in order to have time to play as much as we should like.

At every step in the life of every normal person he is confronted with some problem of economy, and the necessity for economy grows out of the scarcity of something or other. We never think of economizing things that are sufficiently abundant to satisfy everybody, such as air, sunlight, water in many places, wood, stone, or sand in others. Let any of these things become scarce, however, and we must begin to economize them.

It happens that in the spots where most of us live many desirable objects are scarce. These objects must be increased—and that requires an economical use of our time and energy—or they must be economized and made to go as far as possible in the satisfaction of our wants. Show me a person who experiences no lack or scarcity of anything and I will show you a person who has no need for economy; but you will look a long time before you find him. Show me a creature who does not appreciate the fact of scarcity and I will show you a creature who does not know enough to economize, however much he may need to.

Getting and utilizing. In the practical everyday life of the average person of the present, the problems of economy come mainly under the heads of getting and utilizing, of income and expenditure, or of business and household management. A person's common experience of scarcity takes the form of an income which will not buy all the things he desires or, which means the same thing, of desires which run beyond his income.

Three ways of economizing. One must, therefore, because of scarcity, economize, first, by using his time and energy to better advantage in order to get a larger income; second, by spending his income as wisely as possible so as to buy the things he needs most; third, by economizing the goods purchased so as to make them go as far as they will. Most men have to economize in all these ways. The greater part of the time and attention of all civilized men is spent on these matters of economy, which is one reason why the study of economics is the most important of all studies. Whether they prosper or not depends upon how well they solve these problems.

A glance at the diagram at the beginning of this chapter will give one a general view of all the forms in which the problems of getting and utilizing present themselves. This also gives in outline the leading branches of the great science of economics, which has to do with the problems of getting and utilizing things that are scarce. It has nothing to do with things that are not scarce and therefore do not have to be economized. When a thing is scarce, it leaves some of our wants unsatisfied. If we can produce

or economize it, it leaves fewer wants unsatisfied and leaves us better off. That is the way we increase our prosperity.

Production, itself, is a form of economy. It requires, first, that we utilize our working power and not let it lie idle; second, that we utilize it wisely, doing the most important things and leaving the less important things undone; third, that we do what we undertake in the most efficient way, with the least waste of effort. After goods are produced, their wise use is another form of economy. Economy, in this wide sense, is the basis of all prosperity.

EXERCISES

1. What are the two principal things upon which the prosperity of a nation depends? Which is the more important? Why?
2. Why is economy so important?
3. What does it mean to economize?
4. Why do we have to economize?
5. In what three ways does the average man economize?
6. Why is it more important that we give attention to things that are scarce than to things that are sufficient?

CHAPTER II

WEALTH AND WELL-BEING

Prosperity and wealth. The study of national prosperity must necessarily lead to a study of such things as wealth and well-being. Prosperity consists in getting an adequate supply of those things called wealth and in utilizing them wisely. When we have secured an adequate supply of those things we have the means of well-being. When we have utilized them wisely we have achieved well-being. The material objects which we try to get and to utilize are called *wealth*.

What are economic goods ? Before we can go very far in our study of getting and utilizing, or of production and consumption, we must get a clear idea of the sort of things that men try to produce or to get. When it was stated in the last chapter that the necessity for economy arose out of the fact of scarcity, it might have been guessed at once that scarcity has a great deal to do with our concept of wealth and with our efforts to produce it. At any rate the only things we try to produce are the things of which we do not have enough. These are the things about which we are anxious. The very first step toward a true understanding of the nature of wealth, then, is a clear perception that wealth, in the economic sense, consists of things that are scarce and therefore need to be economized. Some very useful things are very abundant, however,—so abundant that everyone can have all he wants. Such things do not have to be economized, hence they are not economic goods. Only those things are economic goods which have to be economized ; that is, which are scarce.

Two meanings of wealth. Now the word "wealth" has two meanings. In the first place, it is the collective name for all economic goods, or for all goods that have to be economized ; that

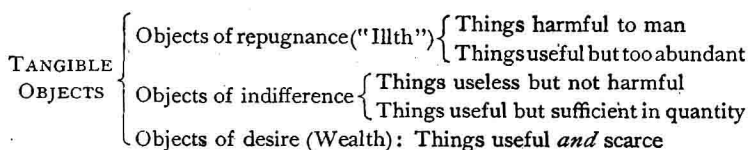
is, for goods that are scarce. In the second place, it is the name of a condition or state of being. It comes from the older word "weal," which means very much the same as "well-being." These two meanings, while apparently different, are yet very closely related. The condition of well-being which we call wealth in the latter sense depends upon the possession of an adequate supply of those things which we call wealth in the former sense; that is, of the things which are ordinarily scarce. He who lacks an adequate supply of these things is poor, though of air, sunshine, and other things which are not scarce he has as much as anybody. He who possesses an adequate supply of scarce things is wealthy, or in a state of wealth. In short, those economic goods called wealth are the goods upon which weal, or well-being, depends. Well-being is increased when these goods are increased or economized; well-being is decreased when these goods are decreased or wasted.

How well-being depends upon wealth. It could not be said of anything which is not scarce that our well-being increases when we have more of it and decreases when we have less of it. There is such an abundance of air, for example, under ordinary circumstances, that no one would be any better off than he is now if the supply of air could be increased, nor would anyone be any worse off if the supply of air were slightly decreased. In other words, no one's well-being depends upon *more* air, even if it could be produced. If, however, air were so scarce that there was not enough to go around, then not only would it need to be economized very carefully but there would be some advantage in producing more of it, if that could be done. The weal, or well-being, of mankind would be improved in proportion as more air could be produced; mankind would be injured in proportion as air was wasted or destroyed. While, therefore, we can say that air is a necessity in a certain absolute sense, yet in a practical economic sense we cannot say that anyone would be better off if more air were produced or if it were even wisely economized; nor can we say that anyone would be worse off if a little air were destroyed or wasted. There would still be

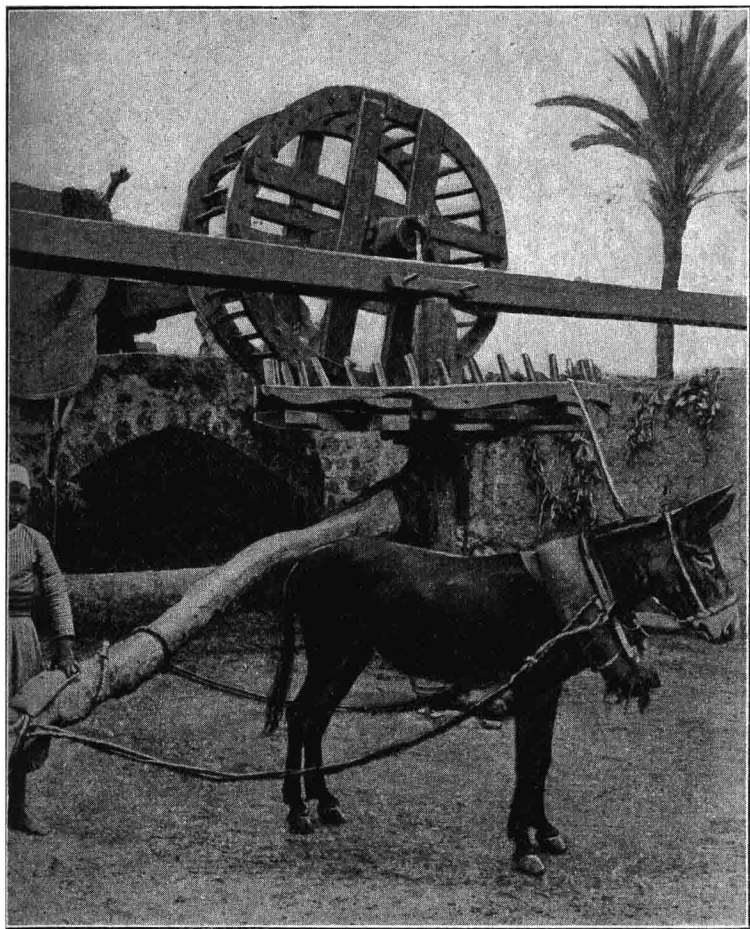
enough to satisfy everybody. That is why air, though an absolute necessity, is not an economic good.

The question of having more or having less. Water is another illustration; perhaps a better one, because there are many places where water is so abundant that it does not have to be economized at all and other places, such as the arid West, where it is so scarce that it has to be economized very carefully. In the former places water is not wealth; in the latter it is. In the former no one labors to secure any more; in the latter they do. In the former no one would be better off if there were more water; in the latter some people would be better off. In the former well-being does not depend upon a little more or a little less water; in the latter it does. In the former there is no occasion for economizing water; in the latter it is very important that it be economized and made to go as far as possible. In the former the formula "more water, greater well-being; less water, less well-being" is not true; in the latter it is true. This is the test in every time and place as to whether water is wealth or not. All that has been said of water may be said of anything else. The same test must be applied to determine whether it is wealth or not.

In the diagram given below is a classification of all tangible objects with which it would be possible for man to concern himself.



Those which are harmful to him he must try to destroy. Toward those which are useless without being in the way or being otherwise harmful he is indifferent. Those which are useful to him, called goods, concern him most. Of these, some are too abundant at certain times and places. In such times and places his attitude toward them must be very much the same as that toward those which are positively harmful. Yet when they exist in smaller quantities—that is, in quantities less than he needs—



WHERE WATER IS WEALTH

A primitive device for pumping irrigation water from the Nile

he will strive as hard to get more as he will strive to reduce the supply when they are too abundant. Water in swampy land is an example of overabundance; in desert land, of underabundance. Manure in a city livery stable is an equally good example of overabundance; in a sterile field, of underabundance.

Relation of value to economic goods. We have gone to considerable pains to point out that one characteristic of economic goods is that they are always scarce. It is this which gives them the power to induce men to work and to economize. Another characteristic is that they all have value, or power in exchange. The power to command other desirable things in peaceful and voluntary exchange—that is, value—is very much the same as the power to induce men to work. That is to say, the thing which possesses one kind of power will always possess the other, if, indeed, it be not incorrect to speak of them as different kinds of power. The object which possesses this power to appeal to human motives in such a way as to induce men either to give up some desirable object in exchange for it or to labor in order to produce it is always said to be valuable. This power depends in all cases upon the scarcity or insufficiency of the existing supply of the object in question.

These things, again, are economic goods, or wealth. Since, as we have just shown, they all possess value, it amounts to the same thing to say that wealth consists of things that have value. In short, such words as “wealth,” “value,” “economic goods,” and “economy” all center around the one great fact of scarcity,—the insufficiency of certain things at certain times and places to satisfy desires. Out of this great fact grow also such ideas as property, industry, and foresight. No one wants to secure property rights, for example, in anything of which everybody has enough. But when anyone fears that there may not be enough of a certain thing to go around, and that he may, therefore, be left out, he naturally wants to guard against that calamity by getting possession of a supply. He will try to get possession of a supply either by producing it himself or by buying it of someone else, and he will try to guard his treasure carefully. When the state steps in and undertakes to protect him in his possession, he