

PART 1

FUNDAMENTAL ECONOMICS

CHAPTER 1

13. Fundamental Economics is the basis and core of this book. It must be understood as an independent and separate science. But, where necessary and appropriate, the study widens so as to include Political Economy. They dovetail into each other, and I hope to explain their mutual relationship. I do not know of any other book which does this simply and within a small compass.
14. The modern world is beset by a host of problems, which to most people seem insoluble, daunting and confusing. The general attitude to them is now apathy and cynicism; attempts to solve and elucidate them are labelled utopian and visionary. But all our great social problems, including unemployment, inflation, massive poverty in the midst of affluence, general social decline and disintegration, can be solved by sincere and determined application of the intellect if the ordinary scientific method is followed, i.e. careful and accurate observation followed by careful, objective, unbiased and logical deduction: all these add up to painstaking sincerity.

But, since anyone who tries to follow this line is quickly confronted by the necessity of refusing to accept much of what is commonly believed the following quotation is vitally relevant to the respect due to authority.

"The respect for authority, the presumption in favour of those who have won intellectual reputation, is, within reasonable limits, both prudent and becoming. But it should not be carried too far, and there are some things especially as to which it behove us all to use our own judgement and to maintain free minds. For not only does the history of the world show that undue deference to authority has been the potent agency through which errors have been enthroned and superstitions perpetuated, but there are regions of thought in which the largest power and the greatest acquirements cannot guard against aberrations or assure deeper insight. One may stand on a box and look over the heads

of his fellows, but he no better sees the stars. The telescope and the microscope reveal depths which to the unassisted vision are closed. Yet not merely do they bring us no nearer to the cause of suns and animalcula but in looking through them the observer must shut his eyes to what lies about him. That intension is at the expense of extension is seen in the mental as in the physical sphere. A man of special learning may be a fool as to common relations. And that he who passes for an intellectual prince may be a moral pauper there are examples enough to show.

"As we must go to the shoemaker if we would be well-shod and to the tailor if we would be well-clad, so as to the special branches of knowledge must we rely on those who have studied them. But while yielding to reputation the presumption in its favour, and to authority the respect that is its due, let us not too much underrate our own powers in what is concerned with common facts and general relations. While we may not be scientists or philosophers, we too are men. Let us remember that there is no religious superstition that has not been taught by professed teachers of religious truth; that there is no vulgar economic fallacy that may not be found in the writings of professors; no social vagary current among "the ignorant" whose roots may not be discovered among "the educated and cultured". The power to reason correctly on general subjects is not to be learned in schools, nor does it come with special knowledge. It results from care in separating, from caution in combining, from the habit of asking ourselves the meaning of words we use and making sure of one step before building another on it - and, above all, from loyalty to truth". (From Introduction to "A Perplexed Philosopher" (1892) by Henry George).

15. In this spirit of honest enquiry let us make our way step by step, through economics, to our objective, which is the solution of those political social problems, such as poverty and scarcity, which now threaten our very social existence.
16. All social problems are ethical and political, never economic. There are no economic social problems; economics is a science not concerned with social problems. Nevertheless, the two are related in the sense that without a mastery of basic economics nobody is equipped for the study of politics, which is a part of ethics. See Aristotle's "Ethics" (Penguin edn. by J.A.K. Thompson, pp.55,64).

Economics Proper

17. Economics is the study of the economy, that great network of production (including exchange) by and from which all civilised people derive

(not always earn) their living. Its essential and most spectacular feature is the *market*, which is a central concern in the following pages.

18. The basis of economics, from which it derives its name, is **THE UNALTERABLE NATURE OF MAN TO ECONOMISE IN EXERTION AT ALL TIMES AND IN ALL PLACES**. Economics is the science of the economy of effort by every human being through association with his fellows by means of the exchange of goods and services, the science of the market or **THE ECONOMY**.
19. Everyone who earns a living does so by labour, i.e. the exertion of hand and brain, not self-sufficiently but by taking part in the world-wide market, consciously or unconsciously contributing his own product to it, and consciously or unconsciously drawing from it in exchange the innumerable products of innumerable other producers, each of whom is seeking his own profit and contributing and withdrawing. Thus by a minimum of effort, and without any concern other than his own part in the network, he satisfies his own needs and desires and the needs and desires of others. This economy which is called **THE ECONOMY**, composed of countless millions of productive workers of every kind throughout the world, and nobody else, all linked by **ONE** common economic phenomenon, i.e. **EXCHANGE**.

The economy is thus our subject-matter. In economic science we study land and labour and wealth and technology only in so far as they relate to the market, the scene and stage of the great social economic organism (not mechanism, because it is the work of nature). The blood which flows through the economy is goods and services; and the force, leverage, or purchase, which causes the flow is economy of effort, or the social conservation of energy.

20. Into the market alone is all modern production channelled, and from and through the market alone is everybody's earned living drawn. Even the astronaut and the modern home-gardener depend on the market for innumerable products. We have emerged for ever, so long as civilization lasts, from the pre-market economy. The whole difference is exchange..
21. As soon as modern production commences, e.g. at the farm, the mine, the forest or the ocean, the goods and services enter the market, and eventually, after innumerable production-exchanges, reach the retailer who sells them in their finished condition to the customer (consumer). With this final exchange the production and exchange are finished; the contribution of every producer to the market is ended, and he now becomes a consumer. He was a producer when he supplied his goods

and services to the market, but now that the exchange is finished by his purchase of the goods and services of other producers, he has reached his economic objective, i.e. enjoyment and leisure. Thus production and exchange are mentally-distinguished parts of the same process: the whole production-exchange process has taken place in and with reference to the market.

22. Let the reader now reflect on the steps by which he acquires any goods or services which he desires, such as a loaf of bread, a piano (probably made in Germany), a holiday trip, hospital treatment, or a post-graduate course in the U. S. A.

CHAPTER 2

THE SCIENCE PROPER

23. All science is knowledge, and economic science is the ordered knowledge of that part of the natural order in human society which can be seen in the market. Great cities, factories, banks, mines, railways, shops, are parts of the economic *order*. Economics is not concerned with human, i.e. enacted or "positive", law, but with the great natural order of the market, which did not originate in humanly enacted or decreed law and still exists and operates quite independently of it, or in spite of it.
24. Like all sciences, economics is the study of an aspect of nature, namely the economic nature of man, which gives rise to the market and the world economic order. The economist is a naturalist. Man is by nature the only exchanging animal.
25. It is true that men economise in other ways than by exchange, e.g. by adaptativeness and by invention, both of which are integral parts of and greatly stimulate the market. But exchange is the essential feature which constitutes the market.

The Two Laws of Human Action

26. The science of economics is based on the two unalterable natural laws of human nature governing all voluntary actions:
27. LAW 1. Every action is engaged in with the object of satisfying one or more desires (including needs). After the basic desires are satisfied new ones keep arising, so that all desires are never satisfied, unlike those of