

# PRINCIPLES OF POLITICAL ECONOMY

## GENERAL NOTIONS

### CHAPTER I—ECONOMIC SCIENCE

#### I. THE OBJECT OF POLITICAL ECONOMY

The heavenly bodies, the earth that we inhabit, the elements that it contains, as well as the animals and plants that live on its surface — in fact, all the things that constitute the material universe and all the relations that exist between them — are the subjects of a distinct group of sciences known as *the physical and natural sciences*.

But in this vast world there are other objects no less worthy of our study, namely, men themselves, living in society; in fact, they could not possibly live otherwise. The relations that unite men socially form the subject of a separate group of sciences, called *social sciences*. As there are among men many kinds of social relations — moral, legal, economic, political, religious, and, finally, linguistic relations which serve as a vehicle for all the others — so there are many distinct social sciences, known as ethics, law, political economy, politics, the science of languages, the science of religions, and so forth.

It is true that the lines of demarcation among the social sciences, which all deal ultimately with man as a member of society, cannot be drawn so sharply as those that separate sciences having dissimilar subjects, such as geology, botany, and zoölogy. Indeed, the frontiers of these sciences, especially of the three most closely related to each other, will always be more or less indefinite: how are we to study exchange, rent, money-lending, or wages, without reference to property, contract, and duty?

But though the economist, the lawyer, and the moralist often meet on the same ground, they look at things from different points of view. To *do our duty*, to *exercise our rights*, to *provide for our wants*, are three quite different aims of human activity; and it is the last of these that is the proper subject of economic science.

We may say, therefore, without trying to be more precise, that political economy has to do with only those relations of men living in society which tend to satisfy their wants and promote their welfare, so far as this welfare depends upon the possession of material objects.

At present there is a tendency to divide the science into two branches: *pure political economy*, and *social economics*.

On the one hand, *pure political economy* (sometimes called also *economics*) studies those economic relations that arise naturally among men living together, just as one would study the relations arising among any other bodies. It does not undertake to pass judgment on these relations, either from the moral or from the practical standpoint, but simply to explain what they are. Thus it claims to be an exact science, and even to be able to employ the methods of mathematics.

On the other hand, *social economics* studies rather the voluntary relations which men have established among themselves in the form of social organizations, written laws, or other institutions of any kind, with the object of improving their social conditions. It undertakes to investigate and determine the best means for achieving this end. Hence it partakes rather of the character of the moral sciences, which enquire *what ought to be*, and of the arts, which enquire *what must be done*. It is also described sometimes, especially by German economists, as *social politics*.<sup>1</sup>

This distinction between pure political economy and social politics is made in all special treatises in virtue of the principle of division of labour. But in a treatise written for instruction, like the present volume, it would be rather awkward than otherwise, for the separation of theory from practice would detract from the interest of the exposition. We shall therefore have to deal with social economics as well as with political economy.

The wide field of political economy must itself be subdivided, to

<sup>1</sup> Social economics, or social politics, should not be confused with *applied political economy*. The latter points out the best practical means of increasing the wealth of a country, such as banks, railways, monetary and commercial systems, and so forth, whereas social economics seeks especially to make men happier by providing them not only with more comfort but with more security, more independence, and more leisure. Consequently it is concerned more particularly with the working classes. These two sister sciences live in two different worlds and are scarcely even on friendly terms: one dwells in the world of business and the other in social reform committees.

Questions of applied political economy are scarcely touched on in this volume: they will be found dealt with in the author's *Political Economy* (Translated by C. H. M. Archibald, M. A.).

make it easier for us to find our way through it. The classical three-fold division into Production, Distribution, and Consumption is due to the French economist, Jean-Baptiste Say. This division corresponds to the three fundamental questions: How do men produce wealth? How do they share it among themselves? What use do they make of it? Then later on there was withdrawn from the immense domain of Production all that has to do with Exchange — commerce, credit, etc. — and to this part was given the name *Circulation*. But, as we shall see, to exchange is to produce; the only difference is that this kind of production of utilities does not involve material alterations in the object exchanged, as industrial operations do.

On the other hand, most economists have dropped that part of the science which relates to Consumption, because, they say, the question of the use made of wealth is a moral one. Such is not our opinion. The use made of wealth, whether it be consumed or saved, is an economic act of the first importance, and one which is obviously the final cause of all the economic acts which precede it. Political economy, it is true, has hitherto looked almost entirely at the producer, but there is some ground for thinking that the consumer is destined to play the leading rôle on the economic stage.

These divisions of our subject are regarded nowadays as somewhat out of date, and in modern books on political economy they are often replaced by other classifications which aim at presenting the facts in a more scientific form. That plan may have its advantages, but we have not thought it expedient, in a book like this, to upset the traditional framework at the risk of bewildering the students for whom it is particularly intended. We have thought it necessary, however, to add an introductory section concerning Wants and Value.

## II. THE FORMATION OF ECONOMIC SCIENCE

It was in 1615 that political economy first received the name under which it is now known. This was in a French book by Antoine de Montchrétien, called *Traicté de l'Économie Politique*.

This name has been criticised, and many others have been proposed in place of it, as being more scientific. It would obviously be better, from a terminological point of view, if our science were described, like most sciences, by a single word, such as *economy* or *economics*, especially since the name *economy* was already in use in ancient times and one of the books of Xenophon even bears this word as a title. But for the ancients it meant what we may call

domestic economics, or household economy (*οίκος*, household, and *νόμος*, law or rule). The qualifying adjective *political*, chosen by Montchrétien, indicated that the science had no longer to do with the economy of the household, but with that of the nation, and the name was particularly appropriate because it announced a historic revolution — the establishment of the great states of modern Europe.

But we must beware of regarding this date, which saw the baptism of political economy, as the date also of its birth. As a study of facts, political economy goes back to a far earlier date, and, as a science, which means a systematic arrangement of these facts, it is more modern.

Economic facts, or some of them at any rate, take such a prominent place in the life even of primitive man that we can well believe that they must always have engaged man's attention. Exchange was practised as early as the stone age, and the law of labour is written in the first pages of Genesis. But a fact may be familiar without furnishing material for science. On the contrary, it only arouses curiosity and provokes a desire for explanation if it is something out of the ordinary. The subtle Greek philosophers do not seem to have felt any need to explain to themselves how and why free men were exempted from the law of labour by the institution of slavery: it seemed quite natural to them. But they observed and analysed with extreme care the nature of money, the division of industry into separate trades, and the methods of acquiring property. It was first the prophets of Israel, and, at a later date, the Church Fathers and the Doctors of the Middle Ages who, inspired by the same religious spirit, were impressed by the contrast between wealth and poverty. They condemned luxury, and, in particular, the practice of lending money at interest, which they called *usura vorax*.

Yet no one ever sought for the connection between these different questions; no one dreamed of grouping them together into a single science. They counted among the accomplishments of the sage rather than of the savant. They were matters of morals, or politics, or theology, and took the form of good advice, offered either to rulers or to individuals.

The discovery of America gave the first impetus, during the sixteenth and especially the seventeenth centuries, to the formation of a true economic theory in a systematic shape; that is to say, what had been merely advice now took the form of a body of co-ordinated and logical precepts. Countries like France, Italy, and England, seeing with envious eyes how Spain was acquiring treasure from her mines in the New World, sought to discover how they too might

procure gold and silver. This was precisely the title of a book published by an Italian, Antonio Serra, only two years before that of Montchrétien (1613), viz., "How to make Gold and Silver abound in Kingdoms where there are no Mines." It was believed that the means consisted in the sale abroad of manufactured products; and, with this purpose in view, efforts were made to develop foreign trade and home manufactures by a complicated and artificial system of regulations to which the name *mercantile system* has generally been applied.

A strong reaction against all these "systems" took place in France in the middle of the eighteenth century. Men's one idea was a return to "a state of nature," and a repudiation of all artificial arrangements. All the literature of the eighteenth century is impregnated with this feeling, including political science in the writings of Rousseau and Montesquieu. Montesquieu's book, *The Spirit of Laws*, begins with the immortal sentence: "Laws are the necessary relations *resulting from the nature of things*."

It was only then that economic science was really born. In 1758, one of the physicians of the French king Louis XV, named Quesnay, published *Le Tableau Économique*. A group of eminent men became his disciples, and though they only called themselves *economists* they have ever since been celebrated in history as *physiocrats*.

The physiocratic school introduced two new ideas into economic science — ideas that were diametrically opposed to the mercantile system. These were: —

(1) Belief in the existence of a "natural and essential order of human societies" — such is the title of a book written by one of the physiocrats, Mercier de la Rivière. The evidence for this order becomes obvious as soon as the fact is observed, and we cannot help conforming to it. It is useless, therefore, to devise laws, regulations, and systems: all we need do is to *let things alone (laissez faire)*. The word *physiocracy* comes from two Greek words meaning "the government of nature."

(2) The superiority of agriculture over commerce and industry. The physiocrats regarded the soil, the forces of nature, as the only source of wealth, because it alone gives a *net product*. The non-agricultural classes of society are *sterile* classes.

The first of these principles was to serve as the foundation of the whole edifice of economic science. Indeed, no facts in themselves can form the basis of a science unless we discover relations of interdependence between them — an "essential and natural order." Nor was it only a new science that was inaugurated by the physio-

cratic doctrines; it was also a new political system, which was to last for a century and to achieve great things under the name of the liberal policy.<sup>1</sup>

Unfortunately the physiocrats were less happily inspired in their exclusively rural conception of production and of wealth, as we shall see later. In this respect they were rather behind their time than in advance of it, for, though they did not know it, they were living on the eve of the establishment of the industrial and capitalist régime. This fundamental error brought their system into discredit.

The publication in 1776 of *An Inquiry into the Nature and Causes of the Wealth of Nations*, by a Scotch professor, Adam Smith, marks a decisive era in the history of political economy. It assured the unquestioned pre-eminence of the English school of economists for nearly a hundred years, and procured for its author the title, not wholly deserved, of "the father of political economy."

Adam Smith, in fact, had a vision, inspired by genius, of the economic revolution that was already on the way. Moreover, he rejects the second physiocratic principle and gives to industry its legitimate place in the production of wealth. But he confirms and develops most brilliantly the first of these principles, namely, the belief in economic laws and in *laissez faire*, at least as a rule of practical conduct.

Again, he was far superior to the physiocrats in observing facts and in profiting by the lessons of history, and he so far enlarged the field of economic science that its boundaries have scarcely been extended since his time.

Not long after Adam Smith two economists appeared simultaneously in England, whose theories, lauded by some and execrated by others, left their mark for a century upon economic science. The first was Malthus, whose famous theory of the increase of population (1803), although it concerned a subject of a somewhat special nature, was destined to create a considerable stir throughout the whole realm of economic science, and to provoke a burning controversy which rages to-day as acutely as ever. The second, Ricardo, was still more celebrated for his theory of rent (1817) — a theory which, continually extended and transformed, became the basis of economic science and even of the doctrines which replaced it.

<sup>1</sup> This policy was first applied by Turgot, a famous economist of the same period, though he did not share the errors of the physiocratic school, first as intendant of Limoges and afterwards as minister of King Louis XVI. He began by decreeing *freedom of exchange*, by abolishing internal customs duties and grain taxes; later on he decreed *freedom of labour* by abolishing corporations or guilds.

In France, at the same period, Jean-Baptiste Say published his *Treatise on Political Economy* (1808) — a book that is truly French in its clearness of exposition, its excellent arrangement, and its classification of principles, but which has not made such fruitful contributions to the development of the science as those of the great leaders we have just mentioned. However, translated into all the languages of Europe, this book was the first really popular treatise on political economy, and has served more or less as a model for the innumerable well-known manuals that have been written since then.

It was Say's book in particular that set forth clearly the character of political economy as a natural, or purely descriptive, science. Adam Smith had defined it as "proposing to enrich both the people and the sovereign," thus giving a practical aim to the study and making it an art rather than a science. But Say, amending this definition, writes: "I would rather say that the object of political economy is to make known the means by which wealth produces *itself*, distributes *itself*, and consumes *itself*," meaning thereby that in the economic sphere everything acts spontaneously, of its own motion, automatically,<sup>1</sup> just like the functions of respiration, circulation, and digestion, which are essential to the physical life.

From this point, political economy can be regarded as definitely established in its classical form. But it was not long before it split up into a large number of schools, whose distinctive characteristics we shall indicate in the next chapter.<sup>2</sup>

### III. WHETHER THERE ARE NATURAL LAWS IN POLITICAL ECONOMY

When we give the name of *science* to any branch of human knowledge, our object is not simply the conferment of an honorary title. We mean that the facts with which it deals are connected by certain relations called "laws."

In some spheres of knowledge the regular connection of occurrences is so obvious as to attract the attention even of persons least accustomed to scientific speculation. A mere glance at the sky is enough to show the regular nightly progress of the stars, the monthly suc-

<sup>1</sup> This is the significant title he gives to his book: *Treatise on Political Economy; or a Simple Exposition of the Way in which Wealth Produces, Distributes, and Consumes Itself*.

<sup>2</sup> To supplement these brief notes, as well as those in the following chapter, see Gide and Rist's *Histoire des Doctrines Économiques depuis les Physiocrates jusqu'à nos jours*, 3rd edition, 1920 [English translation by R. Richards, *A History of Economic Doctrines*.]

cession of the phases of the moon, and the annual journey of the sun through the constellations. In the remotest days of history, shepherds watching their flocks and sailors steering their vessels had already discovered the periodicity of these movements, and thus paved the way for a true science, the oldest of all sciences—astronomy.

The phenomena that are manifested in the constitution of bodies organized and unorganized are not so simple as this, and the uniformity of their coexistence and succession is less easy to comprehend. Long centuries had to elapse, therefore, before the human mind, bewildered by the complexity of things, succeeded in laying hold of the guiding thread, in finding order and regularity in these very facts, and thus building up the sciences of physics, chemistry, and biology.

Little by little the idea of a permanent regularity of phenomena has penetrated all domains, even those which at first seemed destined to remain closed to it for ever. Even the winds and waves, which poets had made the emblems of inconstancy and caprice, have been brought, in their turn, under the sway of universal law. The great laws which govern currents of air and of water have been discovered, and the sciences of meteorology and oceanography have been established.

The time was bound to come when this great idea of a Natural Order of things, after having step by step invaded like a conquering power all other fields of human knowledge, should at last penetrate the domain of social facts. The honour of having first recognized and proclaimed the existence of what they called the "natural government of things," is due, as we have seen, to the physiocrats, though since their time the name of *natural laws* has been preferred.

After the physiocrats, the economists set themselves the task of discovering natural laws in political economy, and indicated a fairly large number of them, whose existence seemed as certain as those of the physical and natural sciences—such universal, permanent, and ineluctable laws as the law of supply and demand, the law of division of labour, the law of rent, the law of the decreasing rate of interest, the law of competition, Gresham's law, etc., etc. And not only did they find laws everywhere; many economists, especially of the French school, tried to prove that these laws were "good"—harmonious and providential, as Bastiat said—meaning that they anticipated our wants, that they arranged things much better than we could do by our written laws, and that they even laboured to correct our errors.



Such an apologetic conception of economic laws could not fail to evoke a strong reaction. Such, indeed, was the case; and, as always happens, the reaction went too far. About the middle of last century the German school set out to denounce this search for natural laws as an error and a ridiculous madness. It declares that the method is completely sterile, and it acknowledges no other laws — if laws they can be called — than *historical* laws, which are naturally peculiar to each race, and which are in no sense universal or ineluctable. They do not rule men, but are, on the contrary, merely the expressions of their national characters and customs: such as they are, they may provide the explanation of their collective acts.

Nevertheless, we cannot give up the idea that economic facts are governed by laws, thus throwing aside the splendid effort made during the last two hundred years to establish political economy as a science in the true sense of the word. But we may admit that some change is needed in the idea that has resulted.

First of all, we must give up attributing to these laws a "normative" character, that is to say, assimilating them to the laws enacted by legislators for the welfare of the people. If in the economic world there are natural laws analogous to those of the physical world, then they must like them be perfectly indifferent to our preoccupations, and we shall more often have to strive against them than to make use of them.

Nor must we picture these laws to ourselves as seated on thrones, whence they govern the world. We must rid them of that imperative character which marks civil and penal laws, and which is symbolized in pictures and statues by a sword.

The word *law* should suggest no other idea than that of a *constant relation between certain facts*, such that if one fact is given, the others accompany it or follow it — as, for example, the relation between the quantity of a commodity and its price, or between its price and the demand for it.

Moreover, it is exactly the same with physical laws. They also express nothing more than certain relations that are spontaneously established between things — relations which can be called necessary ones *only if certain foregoing conditions are fulfilled*. Atoms of oxygen and hydrogen are not compelled to produce water; but *if* one atom of oxygen and two of hydrogen are brought together under certain conditions of temperature, pressure, etc., they will form water. Similarly, men are not obliged to buy and sell, but *if* a man disposed to sell meets a man disposed to buy, and *if* their offers are mutually

acceptable, they will necessarily conclude a bargain at a fixed price which can be determined.

Now this price is not the outcome of the vendor's free will, nor of that of the purchaser, nor of that of both together, for there is a *market rate*, as it is called — a price which is quoted on the exchanges, which is forced upon the market, and to which all buyers and sellers must conform, despite oscillations upwards and downwards. That is what is meant when we say that there is a law of prices.

Some people, however, protest against describing these things as *laws*, and profess to see nothing in them but *tendencies*, because natural laws admit of no exceptions and involve the power of exact forecast, whereas the so-called laws of economics admit of many exceptions, and any forecasts based upon them would be mere guesses, too often proved false by actual events. But this twofold objection does not seem to us well founded.

In the first place, an economic law does not admit of *exceptions*, save in the same way that natural laws do. That is to say, it acts so long as it is not counteracted by an opposite force. It is not an exception to the law of gravitation that an aeroplane leaves the earth. Neither is it an exception to the law of labour that some men have found means to free themselves from it by making other men work for them. It is a law that the demand for a commodity increases as its price goes down: nevertheless it may happen as an "exceptional case" that a fall in price diminishes the demand instead of stimulating it, as would doubtless be the case with diamonds, as soon as they were produced artificially.<sup>1</sup> But even in this case the law of demand would not be violated: it would only be modified by another law, the law that makes the demand for luxuries depend upon a certain degree of scarcity.

In the second place, economic laws admit of making *forecasts*, just as physical laws do. There is no question, it is true, of such forecasts as the astronomer can make when he announces a hundred years beforehand the very minute and second when an eclipse of the sun or the moon will take place. But no other sciences are as exact as this. The botanist does not always know what the outcome of his cross-breeding will be. And the weather forecasts of meteorologists, other than those of the village almanacs, scarcely cover

<sup>1</sup> And as is the case at this very moment of writing, the fall in prices having caused a cessation of demand and a general deadness of the market. But why is this? Because consumers are expecting a still greater fall, and hope to precipitate it by their refusal to buy.

more than two or three days. Yet no one doubts that wind and rain, hailstorms and tempests, are governed by natural laws. Now a commercial crisis can be foretold much further in advance than the coming of a cyclone, and the passage of a train between Lyons and Marseilles is certainly less variable than the flow of the Rhône whose banks it follows; yet one is regulated by man and the other by nature. If, in fact, our economic forecasts are always uncertain and short-dated, it must by no means be concluded that economic facts depend only on chance and fancy, but simply that the motives that determine men's actions are too numerous and too intricately tangled for us to unravel the skein. Finally, if men one day become infinitely wise, it is probable that economic forecasting will operate with as much certainty as that of the astronomers.<sup>1</sup>

It is true that it would be absurd to try to foretell the movements and doings of Tom, Dick, or Harry; but this is of no interest to the economist. He is not a fortune-teller. The only thing that concerns him, whether in formulating laws or in setting up institutions, is *the behaviour of men taken in the mass*.

Notice, moreover, that those so-called practical people who most vehemently deny that economists can foretell happenings in the economic world, yet never fail to employ the art of forecasting in the ordinary course of their lives, and the management of their daily business. Every one who speculates — and who is there that does not speculate? — resorts in some fashion to scientific prevision. The financier who buys shares in a railway company foresees the continuity and progressive increase of traffic along a certain line, and the high price he pays for the shares indicates, whether he wishes it or not, his firm confidence in the regularity of an economic law. Yet it is quite evident that everybody who travels or sends goods by this railway, does so only because he *wills* to do so. And the finance minister who increases the tax on alcoholic drinks or the rate of postage knows perfectly well that the consumption of alcohol and the circulation of letters are optional, and will remain so. None the less he foresees that they will diminish: he is even obliged to estimate the extent of the diminution, in order to draw up his budget.

Is it necessary, then, to say that the existence of natural laws is in

<sup>1</sup> As an argument against the existence of natural laws in social matters, the fact is adduced that many things do not take place in the way *foreseen*. But this simply proves our ignorance. Think, rather, how often things fail to happen as *willed*. Does not this prove that there are stronger forces at work in the world than the will of man?

no way incompatible with individual initiative and activity, and that, on the contrary, it is the one essential condition of their efficacy? How could man exercise any useful control over facts if they were not bound together by a chain of known and constant relations?<sup>1</sup>

Of course there are some facts which are entirely removed from human influence, by reason of their size or their distance. Such are the phenomena of astronomy, geology, and even meteorology. We can only submit to them in silence; our faculty of prevision would not help us to avoid collision with a comet or to escape an earthquake. But there are many other regions in which modern science is all but supreme. Most of the compounds in inorganic chemistry, and those the most important, have been produced by the savant in his laboratory. To see the stock-breeder in his cattle-shed or the gardener in his garden, ceaselessly modifying animal and vegetable forms and creating new breeds, one would imagine that living nature allows itself to be moulded with as much docility as lifeless matter. Even atmospheric phenomena are not entirely withdrawn from the sway of human industry: by appropriate methods of clearing or planting trees, as the case may be, man claims to be able to modify the rule of winds and waters, and to renew the miracle of the prophet Elijah by making the rain and the dew to fall from heaven at his pleasure!

Much more can man exert his powers over economic facts, simply because they are human facts and we have a direct hold over them.<sup>2</sup> No doubt man's action in this respect is confined within certain limits, as it is in the sphere of physical phenomena. Science seeks to determine what these limits are, and all men should strive to respect them, whether individually by way of private enterprise or collectively by way of legislative regulations. As Bacon's old maxim says: *Naturæ non imperatur nisi parendo* (to govern nature you must first obey her). The utopian tortures nature uselessly to get from her what she cannot give: the man of science only asks for what he knows is possible. But the realm of the "possible" is infinitely wider than the classical school imagined.

<sup>1</sup> It has been wittily observed by M. Espinas, in his *Sociétés Animales*, that if human activity were incompatible with a natural order among phenomena, the fact of cooking an egg would have to be regarded as a miracle.

<sup>2</sup> It is recognized even by determinists, even by those who deny the freedom of the will — and such cannot certainly be the case with the school that calls itself "liberal" — that man has the power to modify the order of things in which he lives. But they make this one reservation: that every such action of man is itself necessarily *predetermined* by certain causes. This, however, is a purely metaphysical question into which we need not enter.