

OUTLINES OF LECTURES
IN
ELEMENTARY ECONOMICS

Brown University

BY

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COURSE I.

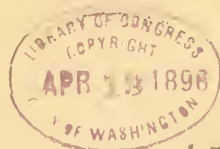
Historical and Descriptive.

These outlines are for class use only and are subject to the corrections and explanations made in the course of instruction.

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LECTURE XXIV.

THE MECHANISM OF DISTRIBUTION.

For a brief description of the classes among the product is distributed see MILL J. S. *Principles of Political Economy Bk. II. Ch. III.* An account of land tenure in Europe in the early part of this century is given by JONES R. *Peasant Rents* (in the *Economic Classics* ed. by Ashley). MILL as above *Chs. VI.-IX.* discusses the same question. For a more recent account see *Systems of Land Tenure* pub. by the Cobden Club, and the article *Tenures des Terres* in the *Dictionnaire d'Économie Politique*. A statistical review of existing conditions will be found in the articles on *Bauerngut und Bauernstand* and *Pacht* in the *Handw'rb. d' Staatswiss.* In regard to the influence of custom see MILL as above Ch. IV. and MARSHALL A. *Principles of Economics*, Bk. VII. Ch. XI. SCHLOSS D. F. *Methods of Industrial Remuneration* gives a full account of methods of wage payments. CLARKE J. B. In his *Philosophy of Wealth Ch. XI.* discusses briefly some phases of secondary distribution.

By the distribution of wealth is meant neither the transfer of products from the producer to the consumer nor the relative amounts of property belonging to different individuals, but the relative shares in the product obtained in a given community during a given period by the different classes and individuals in a community. We may distinguish in general between two stages in the process of distribution. 1. *Primary distribution i. e.* distribution among those who have contributed directly to the production of the products in question. 2. *Secondary distribution, i. e.* distribution between the shares in primary distribution and others.

PRIMARY DISTRIBUTION.

The mechanism of primary distribution is the direct outgrowth of the division of occupations and of economic classes, which have characterized the development of modern industry, as influenced by the legal conditions described in lecture XX.

When the producer works by himself and with his own resources, producing for his own consumption, there is no question of distribution; the earnings of each are what he produces. When, however, division of occupation has developed, the earnings of the individual, even though he provide his own resources, are determined not only by what he has produced but by the terms upon which he exchanges his products with the products of others, and in case he obtains a part of his resources from others, or is working in a group, his earnings will be further conditioned by the terms of division with the others who have taken part in, or contributed to, the enterprise.

The form which this division takes is the result of the organization of production described in lecture XXI. It will be seen from the classification on page 154 that in every enterprise some individual or group of individuals (managers, undertakers, entrepreneurs) take the initiative and assume the risk, securing the assistance of others by contracting to pay them fixed sums or by admitting them as sharers in the possible gains and risks of the enterprise. Within a given period of time therefore (varying greatly in length for different classes), the incomes of some of those contributing to production are fixed in amount and payable at stated times, while the incomes of others, those who have assumed the risk, the profit receivers, are uncertain as regards both amount and time. The following are the principal classes of payments which are fixed by agreement at definite amounts for longer or shorter periods.

1. *Payments for land and buildings*, usually termed *rent*. In the case of city real estate the agreement is almost without exception a written contract for the payment of a fixed sum per annum, continuing usually from one to twenty five years, but sometimes for longer or shorter periods. Among the nations industrially most advanced, the tendency has been to extend the same

form of contract to agricultural lands. The term for which the agreement runs however is usually shorter (one year is the most common term in England), except where custom and not contract is the regulating power, when the rent may practically be fixed in perpetuity. In the case of agricultural lands it frequently happens also that the rent is not a fixed amount but a certain proportion of the gross produce from the land.

In France about one-eighth of the agricultural land is cultivated by tenants on shares (*métayage*), in Italy a still larger proportion, and in the United States in 1890 between one-fifth and one-sixth of all the farms were held in this way.

Outside of England, where the cultivation of land by tenants is almost universal, the proportion of agricultural land worked by owners who, consequently, pay no rent is very large. In the United States three-fourths of the farms are cultivated in this way, in France more than one-half of the cultivated area and in Germany, according to the census of 1882, 85 per cent.

2. *Payments for labor; (a.) manual labor, wages.* This payment may be a stated amount per unit of time worked (*time wages*) or per unit of goods produced (*piece wages*) or some combination of the two. In agriculture, transportation and trade, and in unskilled occupations time wages are the rule; in mining and manufactures the tendency has been towards piece wages, this tendency becoming stronger as labor has become more and more specialized. A reliable authority (Howell) has stated as a conservative estimate that 75 per cent. of the manufacturing labor in England is paid by the piece. Wages are usually not fixed by a written contract, and the agreement is usually for no specified time, very seldom for over a year. (b) *Administrative labor; salaries.* Salaries are usually paid on a time basis and in the case of the most important employees are frequently determined by a written contract running for a term of years.

Wages are sometimes made dependent on the state of the business by making them vary with the selling price of the products (*sliding scale*), or, in the case of both wages and salaries, by adding to them a part of the profits when the profits exceed a certain amount (*profit sharing*). When laborers work on their own account wages may not appear as an item separate from profit, or from rent or interest, provided the laborers supply their own land and capital.

3. *Payment for capital borrowed ; interest.* This payment is almost always at a fixed rate per cent. per year until the principal of the loan is repaid. It is usually based on a written contract, which may cover a period varying from a few months to a hundred years and even longer.

About the only exception to this rule is deposits in banks, the rate paid not being usually fixed by contract.

When the capital is supplied by the same individual or group supplying other of the productive factors, interest may not be distinguishable from other shares in distribution.

Profit, within a limited period of time (*i. e.* a period during which the other factors are fixed by agreement), is, therefore, the residual product, after the other shares have been deducted from the gross product.

Contract and Custom. We have spoken above as if the shares in the product other than profit were determined from time to time by agreement between the parties concerned. As a matter of fact custom still plays a more or less important part (least important in the case of interest) and in some instances is the controlling factor. This is true in the case of land on the continent of Europe, rented on the system of *métayage*, and in the case of all rents for agricultural lands custom probably exercises some influence. In some cases also legislation has interfered to determine the amount to be paid as rent (*e. g.* Irish land legislation ; See Article *Landlord* in *Ency. Brit.*) or to fix an annual payment by which a tenant might both pay his rent and ultimately acquire property in the land. (Prussian land legislation ; see lecture XIV.)

SECONDARY DISTRIBUTION.

Among the principal forms of secondary distribution are the following. 1. *Payments by sharers in primary distribution for the support of their families and dependents.* So essential to the existing form of social organization is this phase of secondary distribution that it might possibly be better to treat the family rather

than the individual as the unit in primary distribution.

2. *Taxes.* Compulsory payments by citizens to the government, expended by the government for public purposes, the real beneficiaries being those who enjoy without payment, or only partial payment, the benefits of expenditures.

It may seem that since government renders a full equivalent for the taxes which it receives that taxes should be counted among the primary shares in distribution. It seems better, however, to include them here, since they differ entirely from the other primary shares in the fact that they are compulsory and that there is no attempt to proportion the amount of taxes paid by individuals to the benefits received by them. The net income which government obtains from productive enterprises is properly to be regarded as a share in primary distribution, but the expenditure of such income belongs to secondary distribution. The importance of governments as factors in the distribution of products is very great and within recent years has shown a marked tendency to increase.

The following table is taken from Kaufmann's *Die öffentlichen Ausgaben der grösseren europäischen Länder*. The figures are for the most part for the year 1892-3; they represent the expenditures of all branches of the government, imperial, state, and local, the upper line in each case showing the gross expenditures in millions of marks, and the lower line the percapita expenditure in marks.

Purpose of Expenditure.	Prussia.	Austria.	Italy.	France.	Great Britain.	Russia.
General Administration.	159.4	147.2	125.1	169.3	101.	418.3
	6.38	6.09	4.10	4.40	2.65	3.78
Internal Security and Care of Poor.....	239.2	121.4	162.4	195.7	482.5	205.4
	7.81	5.02	5.32	5.08	12.66	1.86
Religion.....	27.7	14.4	52.9	42.
	.90	.60	1.3738
Means of Communication (excl. of Post Office, Tel- egraph, and Railways).	123.3	68.5	178.9	306.6	159.4	93.3
	4.02	2.83	5.86	7.96	4.18	.83
Education, Science, and Art.....	236.4	100.3	93.5	255.4	239.9	124.9
	7.72	4.15	3.06	6.63	6.30	1.13
Furtherance of Economic Life.....	47.	60.6	10.1	43.	32.3	50.9
	1.53	2.51	.33	1.12	.85	.46

The following statements are from the Abstract of the Eleventh Census of the U. S., p. 204, the figures being in some cases recombined. The income of national, state and local governments in this country (counting only the net revenue from profit yielding enterprises) was estimated at \$1,040,473,013, of which over 80 per cent. came from taxation. The expenditures for the same year were estimated at \$915,954,055. The principal expenditures for services, in return for which the government demanded no payment, or a payment far less than the cost of the service to the government, from the persons directly benefited were, *pensions, charities and gratuities*, \$146,895,674; *education*, \$145,583,115; *roads, sewers, ditches and bridges*, \$72,262,023 (apparently about one-fifth of this was covered by payments by persons most benefited, in proportion to benefits received); *police*, \$23,934,376; *judiciary*, \$23,071,975; *penal and reformatory institutions*, \$12,381,425; *protection from fire*, \$16,423,829; *public lighting*, \$11,363,780; *public health*, \$3,280,294; *public parks and places*, \$2,362,697; *rivers and harbors*, \$11,737,438; *military (including naval) purposes*, \$57,543,817; *general administration* about \$50,000,000.

3. *Gifts*; by the sharers in primary distribution. These gifts may take a great variety of forms such as alms giving, endowment of charitable institutions (*c. g.* homes for the dependent and defective classes, hospitals), educational institutions, art institutions, etc.

The most important form of secondary distribution by gifts in this country has been the endowment of higher institutions of learning. It is safe to say that by far the greater part of the resources of such institutions has been obtained in this way. The report of the U. S. Bureau of Education for 1892-3 gives the following figures. Number of colleges and universities, exclusive of those for women only, 451. Value of scientific apparatus and libraries, \$13,532,419. Value of grounds and buildings, \$95,545,681. Productive funds, \$94,500,758. Benefactions during the year, \$6,532,157. Total income, \$14,601,034, of which \$5,466,810 (37.4 per cent.) was from tuition fees; \$5,099,859 (34.9 per cent.) from productive funds; \$1,679,051 (11.5 per cent.) from state and municipal appropriations; \$682,292 (4.7 per cent.) from the United States government and \$1,423,022 from miscellaneous sources. When it is remembered that in addition to the colleges and universities included in the above figures there are great numbers of professional and technical schools, public libraries and art museums, all depending in large degree upon private endowment, it is plain that secondary distribution by means of gifts is an element of prime importance in the economic life of this country.

It is probable that this form of secondary distribution is relatively much more important in this country and England than on the continent of Europe, governments there doing the work for the accomplishment of which we rely upon private individuals.

4. *Income* which is not the result of production but is *obtained* from others in ways other than those above mentioned, without the rendering of an equivalent, *c. g.* *by gambling and deceit.*

Much of what is commonly termed speculation is gambling, consisting not in the purchasing and selling of property of any kind, but in betting on price variations. Some forms of speculation are, on the other hand, instrumental in carrying goods from a time or place of relatively large supply to a time or place of relatively small supply. They are thus essentially useful and the income from them is to be regarded as a share in primary distribution.

There is no way of estimating the amount of income derived from such sources, but there is no doubt that it is very large in the aggregate.