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ECONOMICS

AN ACCOUNT OF THE RELATIONS BETWEEN
PRIVATE PROPERTY AND PUBLIC WELFARE

By ARTHUR TWINING HADLEY

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BY

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of Connecticut; Author of "Railroad Transportation,
its History and its Laws"



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PREFACE.

THIS book is an attempt to apply the methods of modern science to the problems of modern business.

Within the last thirty years there have been important changes in economic theory. One school of investigators has employed the principle of natural selection to explain the development and present shape of industrial ideas and institutions. Another school has used some of the results of recent psychological study to account for the actions of individual men in pursuing their own interests under the ideas and institutions thus developed. Both these things have combined to make the economic science of the present day very different, in its methods of analysis and powers of explanation, from that which formed the basis of John Stuart Mill's *Principles of Political Economy*.

Meantime new problems have been developing in modern business life ; most conspicuously, perhaps, in connection with large investments of capital in factories and railroads. The time which elapses between the rendering of labor and the utilization of the products of labor is now so long that the work of the speculator has far greater importance than it did a generation ago. The size of the units of capital is so large that free competition often becomes an impossibility, and theories of economics which are based upon the existence of such competition prove blind guides in dealing with modern price movements. We have to study, far more closely than we once did, the effect of combinations upon the interests of the consumers on the one hand and the laborers on the other; to examine the

results of meeting organizations of capital with organizations of labor, and of controlling them by special legislation or by direct government ownership. We have to deal with socialism, not as the theory of a few visionaries who try to destroy property rights, but as a series of practical measures urged by a large and influential body of men who are engaged in extending the functions of government.

There is no general work in the English language which deals at all comprehensively with these problems of modern economics. As long as Marshall's book remains incomplete there is nothing which attempts to do for the readers of to-day that which Mill did with such signal success for those of half a century ago. The field thus left open I have tried to cover to the best of my ability in the book now offered to the public. It is written for students—that is, for those readers who are willing to give the time and trouble necessary for understanding subjects which are at once important and perplexing. In a professional experience which has been about equally divided between the editorial room and the lecture room, I have generally found that, barring certain necessary differences in form of presentation, what is good teaching in one place is good in another. I have attempted to make the book available for students in the broad sense of the term as well as in the narrow sense; for those who are engaged in doing the world's work as well as for those who are preparing themselves to do it.

I have put things as plainly as I could; but there are some parts of economics where no amount of effort by an author will relieve the reader of the necessity of doing independent thinking on his own account. There are many problems of business life which are so complicated in reality that it is unwise to treat them as if they were simple. There is no foundation for the popular belief that questions of money, of the tariff, or of the rela-

tions between labor and capital, are easy to understand if properly presented. The simplicity obtained by looking at them from one side only is apt to be secured at the expense of thoroughness and too often of candor.

Dealing as the book does with matters of active controversy, sometimes clouded by party loyalty or by personal interests, I am far from expecting everyone to agree with its conclusions. But I trust that everyone will recognize my intent to state both sides of disputed questions as clearly as possible, and to treat the controversies as an arbiter rather than as an advocate, even in those cases where the arguments on one side have seemed decidedly stronger than those on the other.

Where these controversies involve important differences of legislative or commercial policy, the arguments have been presented in the text of the book; where they involve differences of explanation or theory rather than of practice, they have been outlined in the foot-notes. These notes are not to be regarded as exhaustive discussions of economic theory, but as summaries of opinion on controverted points, which may serve to pave the way for detailed study on the part of those who are interested to pursue the subject farther than the limits of the present book will allow.

Without going into the more complicated details of modern mathematical economics, I have occasionally employed diagrams in cases where they seemed necessary for a thorough explanation of the subject. For most people who are likely to use this book I am confident that time spent in studying the diagrams will be more than repaid. I have used one of Cournot's methods of presentation, not because it is any better than those employed by his successors, but because it is simpler.

The separation which is made in so many modern books between economic theory and economic practice seems to me a mistake. I have tried to keep theory and

application together; and, just as far as possible, to make the study of practical problems a means of developing and explaining scientific theories. Where this method can be employed it gives increased interest to the study of economics; and, what is still more important, it guards us in some measure against the danger of disproportionate and one-sided deductions from certain parts of economic science, to which the student is always liable if he develops his theory first and makes its practical applications afterward. No writer on economics has had as wide an influence as Adam Smith; and while Smith's power was in large measure due to those personal qualities in which he stands pre-eminent, it was in perhaps equal measure due to his habit of keeping theory and practice closely combined. People studied his reasoning carefully because it was applied to things which they really wanted to understand, and was constantly supported by an appeal to the observed facts of business life.

I am very far from trying to substitute economic history for economic theory. In a book like this, the explanations are the important thing; the presentation of facts is not an end in itself, but a means of making the explanation clear and comprehensive. The reader will be disappointed if he expects to find a complete and well-ordered history of the financial and industrial policy of various nations. For such a history, he should look to the various works that deal with the special departments of finance, commerce, or industry. A work like this is designed to enable him to make use of such books, not to dispense with them.

In thus connecting theory and practice and giving due prominence to the work of the speculator in modern industry, I have found myself obliged to abandon the time-honored division of the science into the departments of production, distribution, exchange, and consumption. The subjects which are commonly treated under the

head of production are chiefly found in chapters ii, v, and vi; those which are commonly treated under the head of exchange will be found in chapters iii, iv, vii, and viii; while the last six chapters deal principally with questions of distribution, and incidentally with those of consumption.

My obligations to previous writers, in general and in detail, are something which I cannot possibly express in full. When a scientific principle is specially identified with the name of some particular author, I have taken pains to credit it to its proper source—especially in the case of work which, from its newness or for any other reason, has not become part of the general stock of economic discussion. In other cases, I have limited my citations to those books which are likely to prove most accessible and useful to the reader who desires to pursue special subjects farther than can be done within the limits of a general text-book. The titles of such books have been for the most part placed at the head of the chapters bearing on the specific subjects with which they deal; thus forming a bibliography which, while very incomplete, may yet prove serviceable to some readers. Other things being equal, I have included works which are written in English, rather than in foreign languages, and have cited English translations rather than originals.

I am indebted for material aid to my colleagues Messrs. Irving Fisher and J. C. Schwab; and still more to my wife, on whom I have depended both for criticism and for assistance at every stage of the work.

YALE UNIVERSITY, NEW HAVEN,
March, 1896.