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Pure Economic Theory expounds the laws governing the acts of a rational being when faced with the problem of scarcity.

T in the face of scarcity

The principles embodied in pure economic theory cover a much wider field than is usually understood by Economics or Political Economy. Scarcity is present, when means are insufficient to meet all our ends. But whether the "ends" consist in the satisfaction of human wants and whether the "means" consist of material resources or not, ^{makes} ~~is of~~ ^{difference} no importance. Every sort of rational action ~~where in some way or other scarcity obtains~~ has therefore an economic aspect. The poet deals economically with artistic effects, the chess player with his pawns, the upstart with his social connections, the logician with the number of premises he uses, each of them endeavouring to stretch means to the utmost, and to achieve ends at the smallest price possible.

Political Economy as it is usually understood, deals with the problem of scarcity as it affects an aggregate of human beings engaged in satisfying wants by means of material objects and services, such as land, raw materials, tools, machines, mechanical energies as well as human labour.

Pure Economic Theory applies to individuals and social units alike, the principles of rational action being applicable to society as a whole.

The range of pure theory covers

- Individuals engaged in isolated economic action. (Robinson Crusoes island economy), engaged in economic action as members of a market economy. (a house-wife, spending the week's wages.)
- Societies a planned economy, governed by a Supreme Economic Council, a market economy, governed by prices.

Superficial
The economic laws governing these very dissimilar groups of phenomena are the same in every case. The importance of this lies in the fact, that these laws are fundamentally laws of human action and are therefore of moral significance. Every sort of human society is governed by these laws which set a limit to the possibilities of social change.

The laws of Political Economy are dependent upon the organisation of society. The importance of this lies in the knowledge that, by altering society, we can alter the moral significance of the problems confronting us.

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cannot *relevant* *to* *the* *Economy*

A. PURE ECONOMICS

Pure economics consist of the Theories of

1. Choice and Value,
2. Economic Goods,
3. Wants,
4. Present and Future Satisfactions,
5. Equilibria and Balances.

1. The Theory of Choice and Value.

The elementary economic act consists in disposing of a commodity for a definite use. The Principle of Choice requires that by this action we should refrain from using this same commodity for some other purpose. Economics does not deal with raw materials, labour or production as such, but with this act of choice: As a rule choice is based upon the comparative significance of economic goods, i.e. their relative value. Value again depends upon utility, and the utility of a single unit depends upon the urgency of the want that would be left unsatisfied if the unit in question were missing. (*marginal utility*)

2. The Theory of Economic Goods.

not *logical*
The alternative character of economic goods. Commodities as a rule allow of various alternative uses, which are, moreover, mutually exclusive. But for this purely technical fact the principle of choice would not apply to material goods and Economic Theory would lose nearly all its importance.

The complementary character of economic goods, *also* is *another* *logical* technical fact. Different commodities are useful only in conjunction, like labour and land. The degree of their separate utility is there-

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fore problematic. (Theory of computation)

The substitutable character of commodities is what its name implies.
True There are alternative ways of satisfying the same wants.

As a rule

3. The Theory of Wants. (Saturation. Moral needs)

The manner in which we make our choice between alternative uses is mainly determined by the nature of our wants. The more fully a want is already satisfied, the less urgent it becomes. This is the law of saturation of wants. But for this psychological phenomenon (which allows indeed of exceptions) the theory of economic value would be void, value depending on utility, and utility depending on the urgency of the wants satisfied.

But for the alternative character of the uses to which a commodity *can* ~~may~~ be put and the law of saturation of wants, no economic problem would face either the individual or society. Only ~~technical~~ *logical* problems would arise.

Economics deals also with moral wants as far as their satisfaction depends on economic goods. These moral wants also are subject to the law of saturation. When resources are scarce, material and moral wants (or needs) may enter into competition with one another.

In a market economy a competition of this sort is, on the whole, impossible, since certain moral needs are not expressed in the form of "effective demand".

Two main moral needs enter into the fabric of social economics. The need for justice and the need for freedom. In a market economy the need for justice can be met only by the State, an Organ separate and distinct from economic organisation proper. Freedom, on the other hand, is here unrestricted. In a planned economy moral and material needs are dealt with by the same organ, e.g. by the Supreme Economic Council.

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Justice and Freedom are on the whole in competition, not only with material wants but also with each other for their satisfaction. In a society, where material goods are scarce, if social Justice is to be, Freedom must suffer.

4. Present and Future Satisfaction. (Accumulation of Capital)

As a rule we must choose between the use of resources for present and future enjoyment, the latter implying the deferring of present

enjoyment, in order to secure a fuller satisfaction of wants or less toil in the future.

5. Equilibria and Balances.

Economic equilibrium obtains, when the individual has no ^{rational} reason to alter his economic dispositions.

This is achieved

1. When the urgency of the various wants left unsatisfied is equal, no want being satisfied in a fuller manner as long as a more urgent want is being left unsatisfied. - If this balance obtains, the wants satisfied lie in the "belt of marginal utilities".
2. When toil and its results are equal, i.e., the disutility of labour and the utility of the results of labour balance. - Theory of the marginal disutility of labour.
3. When the pressure of present privation is equal to the prospect of fuller satisfaction of wants (or less toil) in the future. - The theory of this balance consists mainly in the laws governing the accumulation of capital goods.

In different types of economics these equilibria will take on a different aspect:

1. Robinson Crusoe in his island economy allocates his hours of labour and the consumers' and producers' goods at his disposal so as to obtain equilibrium.
2. The house-wife achieves equilibrium by reckoning how to spend the week's wages and administering her resources accordingly. The entrepreneur is comparing costs of production and selling prices. - The theory of a monetary economy has its starting point here.
3. In a planned economy equilibrium obtains for society as a whole. - The theory of a planned economy answers mainly the question in what manner equilibrium for the whole of society can be planned.
4. In a market economy equilibrium means equilibrium for all members of society. It means, that none of the members of society have any reason to alter their economic dispositions. - The theory of market economy provides the answer to the question 'by what means do the equilibria in the households of individuals result in this threefold balance for society as a whole?'

The moral significance of the fact that fundamental economic laws apply to every sort of society, lies in the knowledge, that no change in social organisation can save us from our personal responsibilities implied in the scarcity of material resources.

The ethical principle linking up Pure Economics with Political Economy seems to be this:

The Law of Choice makes us inevitably responsible for the social effects of our individual actions in the economic field.

Social organisation should help us to realise our inevitable responsibilities.

B. POLITICAL ECONOMY

Two types of social economics have been mentioned:

Planned Economy and

Market Economy.

Pure economic theory applies to both. The difference between them lies in ~~their economic~~ organisation. Their members are confronted by the problem of scarcity in a different way.

I. A Planned Economy.

From the point of view of pure theory the plans intended to deal with the economic life of a society, do not differ from the economic plans of a Robinson Crusoe. Whether the plans have to deal with one or two persons or with as many millions or hundreds of millions makes no difference from the point of view of pure economics. The planned economy which we are dealing with here, is indeed only an enlargement of Crusoe's island economy. No money, no prices, no market obtains. It is merely an administration of resources, direct and immediate, like a family household.

The greatest difficulty to be overcome in planning the economic life of the body social consists in the lack of exact information or comprehensive oversight^w concerning the wants of individuals and the resources at our disposal to satisfy them, including the specific abilities of craftsmen. The effort and unpleasantness of labour is another element difficult to appreciate.

In a very poor society this difficulty does not arise since here only primary wants can be satisfied, labour must toil to the utmost, and the rare differences in craftsmanship cannot be respected. On this low level there is, practically, uniformity of wants and uniformity of labour, so that both can, indeed, be regarded as known.

But the problem of comprehensive oversight confronts us at once, when the satisfaction of wants rises above the level of bare subsistence. Nor can labour be any more regarded as uniform as soon as specialisation of crafts and craftsmanship is sufficiently deve-

loped to turn the indiscriminate use of labour into economic waste.

As soon as this level is reached, planning must take account of the wants of different groups, special faculties of craftsmanship, etc. , if wholesale waste is to be averted.

"Oversight" and Balance

The lack of oversight makes it difficult to achieve the three balances required:

1. To direct the production of consumers' goods in such a way as to equalise the marginal degree of utility of different commodities (belt of marginal utilities).- This is in a planned economy a task of the central authority, which deals with it according to its appreciation of the relative importance of the wants ministered to. No exact measure of the urgency of wants is available here. In judging the importance of wants the central authority must rely on intuition , based on sympathy and insight qualified by the conscious will to acknowledge some and to leave unconsidered others wants. Both elements entering into the final judgment - the intuitive appreciation of the wants of other people as well as the amount of recognition accorded to them - lack precision. The first is necessarily incomplete, the second is essentially arbitrary. In so far, as the authority entrusted with the decision is constituted on democratic lines, the principles applied to the recognition of wants may lose their arbitrary character.
2. To direct the use of producers' goods, i.e. investments, so that the marginal productivity of labour and capital in different employments be equalised. - No exact measure of the marginal productivity of investments is available here. Correct planning depends upon degree, to which knowledge is possible concerning the factors or agents of production. In so far as productivity depends on technical facts, precision of technical measurement is essential. In so far as productivity depends on the urgency of the wants ministered to by the consumers' goods in course of production, the question is the same as the appreciation of the urgency of wants discussed above.
3. To administer both consumers' and producers' goods so as to equalise the pressure of present toil and privation , and the prospect of greater plenty and less toil in the future.- This is done in fixing the rate at which the accumulation of capital-goods shall proceed. No exact measure (comparable to the interest-rate in a market-economy) is available here to fix this rate. There is here nothing to show, that the relative pressure of present and future wants of individuals is in accordance with the rate of accumulation of capital. On the other hand, if authorities decide so, capital can be accumulated here either more

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slowly or, which is of greater importance, more rapidly than individual wants would warrant. If the authority is democratically constituted, its decision may even ^{to be} correctly interpret the ~~conscious~~ will of the individuals as citizens for a higher rate of accumulation than their behaviour as isolated consumers would ^{mean as a} demand. The citizen may realise the needs of the future more vividly than the consumer.

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"Oversight" and Democracy.

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Oversight is the central factor in a planned economy. Socialists often regard the increasing centralisation of production in modern capitalism as an assurance of a future Socialist economy. This ~~expectation~~ implies, that only with a centralised production is there sufficient oversight, to make planning possible. This view is ~~no doubt~~ correct. But as a matter of fact they seemed to be concerned with knowledge of the material and objective elements ^{of} economics, labour, land and capital goods ^{elements} ~~not~~ of the subjective and psychological ~~ones~~ such as the wants of consumers and the toil of producers. But oversight regarding the relative urgency of the latter is essential, if waste in planning is to be avoided. To gauge these elements correctly, statistical methods, inventories, etc. as used in the case of material and objective elements ~~are of no use,~~ these elements being of a subjective and psychological nature. Quite different methods are needed here. It is by organisation and by democratic representation of interests, that central authorities can alone obtain the sort of insight required. Right planning depends upon the whole of society being organised in the right way, so as to secure the greatest amount of freedom and selfdetermination for all individuals. Politics and economics constitute here one indivisible whole. Democracy stands not only for political freedom but also for economic rationality.

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II. A Market Economy

In a market economy ^{there is} ^{to decide} nobody decides whether the production of a commodity should be extended or diminished, whether the stocks should be increased or decreased, and, in each case, how this should be done: whether the hours of labour should be longer or shorter, nominal wages lower or higher, money incomes in general altered or not. Yet all these changes take place. The balance between the various categories of consumers' goods produced, the balance between different investments, the balance between the present and the future is being decided by an anonymous organ called the market.

In a market economy prices are the one central phenomenon. Prices depend only on prices and on prices ~~only~~ prices depend. (System of interdependence). All the ~~most delicate~~ intricate balances which authorities in a planned economy are

in principle

striving so hard to attain by dictatorial methods are here realised automatically, and with infinite precision without any restriction of personal freedom whatever.

Prices and Balances

The market discharges its functions by constituting prices. Its two main functions are:

1. fixing the distribution of labour and capital goods amongst the various branches of production,
2. fixing the distribution of the social dividend amongst participants of production. *the*

The market achieves this

1. by fixing the prices of consumers' goods and determining thereby the proportion in which the various branches of production should stand to each other, i.e., the proportion of labour and capital goods allocated to each of them,
2. by fixing the prices of income yielding resources being:
 - the price of labour called wages;
 - the price of the use of land called rent;
 - the price of the use of capital called interest.

Normally the incomes derived from these prices of income yielding resources are just sufficient to buy the shares of each group in the social dividend, distributing in this way the consumers' goods of which the social dividend consists, between the persons participating in the economic process.

The fixing of the distribution of labour by which labour and capital goods are allocated (function 1.) implies the achievement of all three balances:

1. The belt of marginal utilities is achieved for each individual consumer.
2. Marginal productivities of labour and capital in different branches of production are equalised by equalising earnings of labour and capital respectively in different branches of production.
3. The balance between the present and the future is regulated by the interest rate, savings being balanced with investments, etc.

Economic theory is indeed able to show that the manner in which the market allocates labour and capital to the different branches of production conforms with the requirements of all three balances.

The second function of the market, the allocation of their respective shares to the persons participating in production, is incidental to the fulfilment of its first function. Income yielding resources are part of total goods and the prices of income yielding resources are in the closest interdependence with all other prices. In a market economy incomes are thus automatically linked up with the process of production, i.e., independence of incomes from the general process of economic life is here impossible. This is one of the most essential differences between a market society and a planned society where incomes are on principle independent from the position of the individual in the fabric of production.

Price System and Original Allocation of Wealth

The price system can be theoretically deduced from the elementary factors of the economic system, i.e. from wants and resources. These given, the economic system is determined.

Resources as against wants being necessarily scarce, there is under given technical conditions only one optimum way of planning the satisfaction of wants. But this optimum price system is subject to an important qualification: the wants of individuals being subject to the law of saturation, the urgency of the actual wants of different individuals will depend on the degree, in which the individual is able to satisfy them, in a market economy on the "effective demand" the individual is able to exercise. Effective demand in its turn depends on purchasing power, or, in other words, on the income of the individual. Income, in the last resort, depending again on the quantity and quality of income yielding resources of which the individual disposes. This reveals, that the price system in a market society is always determined by the original distribution of goods amongst the members of society, by a datum wholly outside the range of the system itself. Or in other words: the original distribution of wealth amongst individuals or classes of society is a datum to which all other factors in a market society must conform. Economic rationality, adequacy, exactness, and precision and other positive characteristics rightly attributed to the functioning of a market economy are limited to a given distribution of property, this distribution itself being wholly outside the range of rationality, adequacy, or any sort of economic norm, at all. On the contrary: however irrational and unjust this distribution may be, the market system governed by it will function with equal precision.

Market economy is ^{upheld} supported:

1. for the rationality and precision of its movements as opposed to the inadequate oversight and arbitrary methods of a planned economy,
2. for the individual liberty assured to its members as against the lack of freedom in a planned economy.

Rationality and Exactitude

base In a market economy equilibrium and balance is based upon exact measures *refers to* *mean* consisting in prices. Although planning is a conscious process and market economy is not, yet planning lacks exactitude while the market mechanism is infinitely exact by its nature. Not only is the appreciation of wants in a planned economy imperfect, but, moreover, their recognition is arbitrary. In a market economy appreciation is perfect as well as rational and cogent. But what do cogency and rationality mean here? Do they mean that the result of the economic process is less arbitrary than is the case in a planned society? On the contrary. If the principles determining the recognition or non-recognition of wants are more or less arbitrary in a planned economy, in a market economy they are utterly meaningless or, rather, there are no such principles at all. That market prices are not arbitrary does not mean that they make part of a humanly sensible system, but that the system they are part of allows of no meaning. From the moral point of view the market system is more arbitrary in the appreciation of wants than a planned economy, prices in a market economy depending on the original allocation of income yielding resources - a fact wholly accidental to the principles governing the recognition or non-recognition of wants.

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A market economy is non-arbitrary only in so far as it conforms exactly to the rules of the game. But these rules themselves are arbitrary. Planned economies conform only imperfectly to the rules but these rules themselves are not arbitrary, they have a meaning and a moral significance.

Liberty and Freedom

In a market economy there obtains in some sort the fullness of economic freedom for the individual: the individual has complete oversight concerning the facts relevant to his economic interests and is at liberty to do what he likes about it. In a planned economy the individual has a very much restricted sphere of economic interests proper and even in this limited sphere he is not always at liberty to act as he likes.

In the purely economic field the freedom of the individual is no doubt greater in a market economy.

But society does not consist of economic life alone. Even less can individual life be restricted to selfish motives. In a planned economy the commercial and industrial field proper is not separate and distinct from the other spheres of human interest and action such as politics and the general life of community. From this wider aspect the individual in a market economy has hardly any insight at all: he neither knows nor is able to ascertain the effects of his individual acts upon others, the social results of his individual action escaping him altogether. The individual lacks here the liberty to act differently from the one and only manner in which circumstances allow him to

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behave: the selfish way of individual economic interest.
You are driven to regard selfish action as the safest attitude from the point of view of the community securing for it the best service at the cheapest price. Selfishness is encouraged not only by selfish interests but even by unselfish ones. The rational motives of your everyday dealings are fixed unalterably limiting the possibility of moral progress of the masses in the economic field. In an acquisitive society such progress can rely upon heroic individual attempts only, not upon the basic structure of society also. *Keep but cannot rely*

Society is separated by the market into a pre-market process determining prices and a post-market process depending upon them - prices themselves being the result of an inscrutable process, inscrutable as to individual influence on them.

Thus, individuals are not only isolated from one another, but they are in a manner also separated from themselves. Or, in other words, fragmentation of life is a hindrance to the full realisation of personality.

However, personality may perhaps develop freely enough in any society, what we are here concerned with is individual personality. It consists in the unity of the individual and his impulses, emanating from one source. For this unity to be achieved, the impulses and impulses lie in different spheres of life, mixed up in a manner wholly unknown to the acting individual.

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In this short synopsis we dealt with "market" and "planned" economies as with mutually exclusive opposites. The very important intermediary forms have been neglected. But the method applied to them can be deduced from the premises: The moral value of social organisation depends on the degree to which it helps individual responsibility to be realised in the social sphere. A planned economy as such has no moral precedence over a market economy. Everything depends on the degree to which democratic organisation of the whole of the social fabric makes authority representative and individuals responsible.

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