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HENRY DUNNING MACLEOD

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MANCHESTER STATISTICAL SOCIETY.

On the Modern Science of Economics.

BY HENRY DUNNING MACLEOD, M.A.

Read April 20th, 1887.

It is a matter of common notoriety that while economists, in this country at least, have during the last three-quarters of a century achieved a series of great successes, the science of Political Economy itself, or Economics as it may more aptly, and is now becoming more usually termed, is in a most unsatisfactory state; and, indeed, a very large number of persons deny that there is any intelligible science of Economics at all.

As a matter of fact, economists throughout the world are divided into two camps—one division holds that it is the science which treats of the production, distribution, and consumption of wealth; but the other division, which is now enlisting new adherents every day, and is gradually gaining the ascendancy throughout the world, defines it as the science of commerce or exchanges.

I shall show you a little further on that these two expressions originally meant exactly the same thing, and the main question which I shall submit for your determination is, which of these two expressions is the more suitable for the science in its state of development at the present day?

It is very commonly supposed that Adam Smith was the founder of political economy. A once-prominent politician is reported to have said that political economy and free trade sprang complete from the head of Adam Smith, as Minerva did from the

head of Jupiter; but such ideas are wholly erroneous. Political economy was founded by a series of illustrious philosophers in France, in the middle of the last century, and it was they who devised the expression, *Production, Distribution, and Consumption of Wealth*; and I shall show you that the present deplorable state of the science is due to modern writers having entirely misapprehended its original meaning.

But, at all events, all economists are agreed that their science treats exclusively about wealth, and that it is the science of wealth. We have then to inquire, What is a science? and what is the science of wealth?

What, then, is a science? A science is a body of phenomena or facts, all based upon some single general idea or quality; and it is a fundamental law of natural philosophy that all quantities whatever which possess that quality, however diverse they may be in other respects, must be included in that science; and the object of the science is to discover and ascertain the laws which govern the phenomena, or govern the relations of the quantities of which the science consists.

If, then, economics is the science of wealth, the first thing to be done is to determine what that single general quality is which constitutes things wealth, then to discover all the various kinds of quantities which possess that single quality, and then to determine the laws which govern the relations of all these various quantities.

ON THE DEFINITION OF WEALTH.

And in submitting to your consideration the true definition of the word wealth, I hope that you will not think that I am going to amuse you with vain logomachy or curious speculation. On the contrary, this word is not only the basis of a great science, but there is none, probably, which has so seriously influenced the history of the world and the welfare of nations, according to the meaning given to it at various periods.

For many centuries the legislation of every country in Europe was moulded by the meaning of the word wealth. The eminent French economist, J. B. Say, says that during the two centuries preceding his time, fifty years were spent in wars directly originating out of the meaning given to this word.

Another economist, Storch, speaking of the mercantile system which prevailed so long, says, "It is no exaggeration to say that there are few political errors which have produced more mischief than the mercantile system. . . . It has made each nation regard the welfare of its neighbours as incompatible with its own: hence their reciprocal desire of injuring and impoverishing one another, and hence that spirit of commercial rivalry which has been the immediate or remote cause of the greater number of modern wars. . . . In short, where it has been the least injurious, it has retarded the progress of national prosperity: everywhere else it has deluged the earth with blood, and has depopulated and ruined some of those countries whose power and opulence it was supposed it would carry to the highest pitch."

So Whately says: "It were well if the ambiguities of this word had done no more than puzzle philosophers. . . . It has for centuries done more, and perhaps for centuries to come will do more, to retard the progress of Europe than all other causes put together."

Now, certainly, we may be very sure that no wars in future times will ever again be caused by the meaning of the word wealth. But for all that, is all danger over? Far from it. On the contrary, if possible, we are menaced with a more terrible danger still. Because that dread spectre of Socialism, which now threatens war and revolution to every country on the Continent, and from which this country is not entirely free, is entirely based, as the Socialists themselves say, on the doctrines of wealth put forward by Adam Smith and Ricardo.

These considerations, which are nothing but the literal truth, show you the gravity and the importance of the inquiry to which

I now invite you. I hope that this evening we may entirely clear away this reproach, and that the words I am going to say may not vanish from your minds as if they were written in sand on the seashore; but rather that they may be as if they were written with an iron pen, and graven on the rock for ever.

We have now, then, to search for that single general quality which constitutes things wealth.

More than two thousand years ago Aristotle said, "*χρήματα δὲ λέγονται πάντα ὅσων ἡ ἀξία νομίσματι μετρεῖται*:"

By the term wealth we mean all things whose value can be measured in money.

Thus Aristotle makes exchangeability, or the capability of being bought or sold, to be the sole essence and principle of wealth. Consequently, everything which can be bought or sold is wealth, whatever its nature or its form may be.

Now, here we have a perfectly good general definition, which contains only one general idea, and which is therefore fitted to form the basis of a great science. This single sentence is, in fact, the germ out of which the whole science of economics is to be evolved, just as the huge oak tree is developed out of the tiny acorn.

We have next to discover how many distinct orders of quantities there are which can be bought and sold, or whose value can be measured in money, *i.e.*, possess the quality of exchangeability.

In the first place there are material things of a multitude of different kinds, such as land, houses, cattle, corn, money, &c., which can all be bought and sold, which every one now admits to be wealth.

There are, however, other kinds of quantities whose value can be measured in money, which we have now to consider.

ANCIENT DIALOGUE TO SHOW THAT LABOUR IS WEALTH.

There is a remarkable ancient work extant, which is, as far as I am aware, the earliest regular treatise on an economical question.

It is termed the "Eryxias," or "On Wealth." The purport of this dialogue is this. The Syracusans had sent an embassy to Athens, and the Athenians had sent a return embassy to Syracuse. As the ambassadors were entering the city, on their return from Syracuse, they met Socrates and a party of his friends, with whom they entered into conversation. Eryxias, one of the envoys, said that he had seen the richest man in all Sicily. Socrates immediately started a discussion on the nature of wealth. Eryxias said that he thought upon the subject as every one else did, and that to be wealthy meant to have much money. Socrates asked him what kind of money he meant, and he described the money of various countries. At Carthage they used as money leather discs, in which something was sewn up, but no one knew what it was, and he who possessed the greatest quantity of this money at Carthage was the richest man there; but at Athens he would be no richer than if he had so many pebbles from the hill. At Lacedæmon they used iron as money, and that useless iron. He who possessed a great quantity of this at Sparta would be wealthy, but anywhere else it would be worth nothing. In Æthiopia again, they used carved pebbles, which were of no use anywhere else.

Thus Socrates showed that money is wealth only in those places where it is exchangeable, or has purchasing power. In those places where it is not exchangeable, or has not purchasing power, it is not wealth.

Socrates then asked, "Why are some things wealth, and some things are not wealth?" "Why are some things wealth in some places and not in others, and at some times and not others?" He then showed that whether things are wealth or not depends entirely upon human wants and desires; that everything is wealth where it is wanted and demanded; and that it is not wealth where it is not wanted and demanded.

Socrates then showed that things are *χρήματα*, or wealth, only when and where they are *χρησίμια*—that is, where they are wanted and demanded.

Thus, though some persons might be puzzled at the meaning of the word *wealth*, there is no possibility of mistake when we refer to the Greek, because *χρῆμα*, which is one of the most usual words for wealth in Greek, comes from *χράομαι*, to want or demand; consequently the word *χρῆμα*, or wealth, means simply anything whatever which is wanted and demanded, no matter what its nature or its form may be.

It is, then, human wants and desires which alone constitute anything as wealth: anything whatever which men want and demand, and are willing to pay for, is wealth, whatever its nature may be: anything which no one wants and demands is not wealth.

Socrates then showed that anything else which enables us to purchase what we want and demand is wealth, for exactly the same reason that gold and silver are.

He instanced professors and persons who gained their living by giving instruction in the various sciences. He said that persons got what they wanted in exchange for this instruction, just as they did for gold and silver; and consequently, he said, the sciences are wealth—*αἱ ἐπιστήμαι χρῆματα οὖναι*; and that those who are masters of such sciences are so much the richer—*πλουσιώτεροί εἰσι*.

Now, in instancing the sciences as wealth, that of course is a general term for labour, because labour, in economics, is any exertion of human ability, or thought, which is wanted, demanded, and paid for. Now, labour or thought cannot be seen or handled, but it can be bought and sold: its value can be measured in money, and therefore, by Aristotle's definition, it is wealth.

Socrates, in this dialogue, shows that the mind has wants and demands as well as the body, and that the services which are wanted and demanded by the mind, and are paid for, are equally wealth, as those material commodities which satisfy the wants and demands of the body and are paid for.

Thus Socrates shows that personal qualities are wealth, and a person makes an income by the exertion of his skill and labour

as an advocate, a physician, an engineer, or the manager of a great company, just in the same way as another person makes an income by selling material commodities.

DEMOSTHENES SHOWS THAT PERSONAL CREDIT IS WEALTH.

But personal qualities may be used as purchasing power in another way besides that of labour. If a merchant enjoys good "credit," as it is termed, he may go into the market and buy goods, not with money, but by giving his promise to pay money at a future time—that is, he creates a right of action against himself. The goods become his actual property, exactly as if he had paid for them with money—in fact, this right of action is the price he pays for them, and this right of action is termed a credit, because it is not a right to any specific sum of money, but only a general right against the person of the merchant to demand a sum of money at some future time.

Hence a merchant's credit has purchasing power exactly as money has. When a merchant purchases goods with his credit, instead of with money, his credit can be valued in money exactly as his labour may be; and therefore, by Aristotle's definition, personal credit is wealth; and so also Demosthenes says—*Δνοῖν ἀγαθῶν ὄντων πλούτον τε καὶ τοῦ πρὸς ἅπαντας πιστεύεσθαι, μείζον ἐστὶ τὸ τῆς πίστεως ὑπαρχον ἡμῖν.*

There being two kinds of property, money and general credit, our greatest property is credit.

Also he says—*Εἰ δὲ τοῦτο ἀγνοεῖς ὅτι πίστις ἀφορμὴ τῶν πασῶν ἐστὶ μέγιστη πρὸς χρηματισμὸν, πᾶν ἂν ἀγνοήσεις.*

If you did not know this, that credit is the greatest capital of all towards the acquisition of wealth, you would be utterly ignorant.

Thus, Demosthenes shows that personal credit is ἀγαθὰ, or goods and chattels and ἀφορμὴ, or capital.