

**ECONOMICS AS A
FOUNDATION
FOR A THEORY
OF GOVERNMENT**

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Economics as a Foundation for a Theory of Government by William M. Coleman

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BY

WILLIAM M. COLEMAN.

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PREFACE.

The motive of the present work is to propound a theory of distribution in which the equilibrium existing between the compensation of capital (interest) and the compensation of labor (wages) is outlined and determined. This equilibrium is obtained by regarding the productive power of capital as the productive power of the human beings engaged in producing and utilizing capital.

My object in establishing this proposition is to lay the foundation for such an explanation of the laws governing the distribution of the total product of an industrial society among all the producers as will in its turn furnish a basis for deducing certain cardinal rules of economic conduct which can be used as a test of governmental policies. This object cannot be attained if capital and labor are regarded as two entirely independent factors of production.

The cardinal rules of economic conduct which I desire to establish are, first, increase total product, and, secondly, lessen friction in the channels of distribution.

The truth of these two propositions seems patent nor would it appear that they are open to contest; but, as matter of fact, they have been the subject of bitter dispute in practical application. In the consideration

of the "trust" problem, for example, those who urge a policy of destruction as distinguished from a policy of regulation advocate a course directly opposed to the rule. Assuming that by combination the cost of production is lowered, which is the same as saying that the product per unit of labor is increased, the first rule demands that the existence of combination should be permitted. Assuming that the combination practises extortion, the second rule indicates a policy which, while permitting the existence of combinations, would by suitable measures prevent the "trust" from appropriating to itself the entire gain and thus disturbing the natural course of distribution to the detriment of the public at large. Similar applications of the principles will readily suggest themselves in the case of the tariff, subsidies, regulation of railroad charges, etc. These ideas will be developed more fully hereafter. They are merely indicated here in order to show the general plan of the study upon which we are entering.

WILLIAM M. COLEMAN.

NEW YORK, 1901.

CHAPTER I.

DISTRIBUTION.

The central problem of economic science is distribution. Chronologically, the first economic process is production of commodities; and the second is the distribution of those commodities among the producers. There is, however, no way of determining what or how much an individual or a society will produce, further than to say that the product will be of such a nature as to minister to the wants of the human organism and will be produced as far as possible in sufficient quantities to supply those wants. From a practical standpoint, economic science is greatly interested in the amount and quality of the total product; but in constructing a theory of economic relations, the existence of a total product is assumed, and the inquiry resolves itself into an investigation to discover the laws regulating the distribution of that product among the producers. It is chiefly in the latter aspect, moreover, that we turn to economic science for help in the solution of governmental problems. To be sure, we shall see later that the power of the community may be advantageously exercised in some cases where it tends to increase the total product, but this conclusion rests upon the assumption that any such increase will eventually be distributed among the producers in proportions fixed by natural law. And when we approach that vast realm of legislation which deals with the regulation of prices and charges and as-

sumes to pass upon the worth of economic services, we are instantly met by the necessity for having some standard by which to judge whether prices and profits are higher not only than the rate current at the time, but also whether they are higher than should be allowed. This standard cannot be furnished except by a correct theory of distribution.

Let us see then whether we cannot outline a practical theory.

The problem of distribution has two aspects. The first we may term the functional. In dealing with this aspect of the problem, we seek to place the relations of a producing society in such a perspective as to show what proportion of the total product is allotted by natural law for the performance of each function. The second aspect we may term the individualistic. In this aspect, we seek to ascertain what compensation is paid to a man for his exertion or productivity, and for the time and money spent in acquiring an education.

These two methods are obviously complementary in the same sense that the elements of cost and utility are complementary in dealing with the price of commodities; that is to say, in the case of labor and capital, the performance of a function must precede compensation just as in the case of commodities utility must precede price. Indeed, the term "performance of a function" is really the concrete thing which the term "utility" expresses in the abstract. Therefore, up to a certain point, the same methods of reasoning can be pursued in constructing a formula expressing the compensation of labor, as are pursued in constructing a formula expressing the price of commodities. Betrayed by this

similarity, many writers have attempted to deal with the whole problem in that manner, proceeding upon the assumption that what they term "wages" is the price of the commodity labor. As will be seen from the following argument, however, the analogy between the two does not proceed that far.

I.

Functional Distribution.

From the proposition that the performance of a function must precede compensation, we can readily deduce the further proposition that, under ordinary circumstances, the compensation paid will bear some relation, more or less direct, to the importance of the function performed. For example, if two men of precisely the same ability and the same preliminary expense for education are placed in different occupations requiring the same amount of ability and exertion, it does not by any means follow that the amount of compensation which each will receive will be identical. The opportunity for acquiring an equal compensation may not be present. Compare the earnings of the most successful musician with those of the most successful manufacturer of steel. The latter will earn in a lifetime one hundred times as much as the former. Assuming that the elements of original ability, preliminary expense, exertion and all similar elements offset each other, we remain confronted with the fact that one man has exerted his abilities in a direction more lucrative than the other. And why is it more lucrative? Obviously because the function performed is more important to society; that is to say, the steel maker fills a more