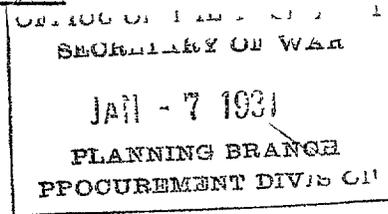


Cat #1000 *Admiral - C.S.C.*
67
THE ARMY INDUSTRIAL COLLEGE
WASHINGTON, D. C.

Course 1930-1931



THE DEVELOPMENT OF ECONOMIC THOUGHT. ITS
RELATION TO CONTEMPORARY
CONDITIONS.

by

Capt. Jas. H. Beals Bogman, Sig. C.

Instructor.

December 15, 1930.

Introduction

IS THERE A CORRELATION BETWEEN THE PRESENT ECONOMIC CONDITION
OF THE COUNTRY AND THE TREND OF MODERN ECONOMIC THOUGHT?

Economic conditions in the United States at the present time can be classed as "hard times." The productive facilities of the country are operating at a fraction of their capacity. Millions are unemployed.

Economic thought today tends somewhat toward putting into practice certain production controls which will, in a measure, help to restore the industrial equilibrium.

Our national wealth may be measured in terms of productive facilities, the value possessed by material goods, the existence of specialized services, and the operation of efficient processes whereby the costs of production can be reduced.

The economic well-being of a country, however, implies more than material wealth. It carries with it harmonious human relationships.

In his new book, which has not yet gone to press, Professor Ely states "Economic law has reference to human relationships, and human relationships are the outcome of human nature in its environment in particular time and place. Environment is physical universe and social conditions at the time in which we are dealing."

All economic conclusions are subject to change. The only sure thing is that changes will come. In short, Economics is dynamic and not static.

*Man has always found it necessary to overcome obstacles in order to gratify his desires. Such efforts are economic activities. These activities lead men to form associations of various kinds, and to act jointly, with the result that an economic order or society is established.

The characteristics of the economic order evolved depend

- 1st, On the kind of wants man has,
- 2nd, On the character of the obstacles to be overcome before the wants can be satisfied,
- 3rd, On the equipment available for use in overcoming the obstacles.

*L. C. Marshall. Adapted from "Readings in Industrial Society." 1924.
pp. 3,4.

67

Economic activities are carried on within society, and accordingly a study of economic organization involves a study of the entire social system from an economic standpoint.

This talk purports to show, by outlining the evolution of economic society and the development of economic thought, that a reciprocal dependence does exist between economic thought and contemporaneous conditions.

Economic History

Primitive man depended upon finding things, not upon making them. The wants were few and had to do with subsistence of the rudest sort. The means of satisfying these wants varied with such local peculiarities as temperature, moisture, and geological formation. There was little division of labor. Man hunted and fished while woman dug roots, prepared the food, and cared for the young.

As man progressed into the pastoral stage he still had no fixed abode, as food had to be found for the herds and flocks. There was little or no private ownership of land. Certain areas were claimed, and inter-tribal warfare prevailed. Individual wealth existed in the form of animals which man had domesticated to his use. With this ownership of property contrast between rich and poor appeared, and certain rules regarding inheritance were recognized.

Probably the pressure of population on subsistence was the direct force behind the development of the agricultural stage. The production of wealth was increased by the use of animal power in cultivating the soil. In this step forward man helped to insure himself against the irregularities of an unplanned life. New economic relationships between men ensued.

Village communities developed that were economically self-sufficient. Production and consumption were proportionate. Exchange was effected in kind and accordingly money had little significance.

With the development of centers of trade the handicraft stage was ushered in. Trade was more or less localized and efforts were made through the guilds to regulate it. The use of money became important.

12

Gradually there developed, from the domestic, a larger economy. Industry was carried on in a small way. The functions of the merchants and workmen were separated, and the middleman came into the economic scheme. This stage directly preceded the Industrial Revolution.

As the factory displaced the home as a manufacturing center, workers began to specialize in order to speed up production for market purposes. This led to a productive system in which human effort assumed the aspects of mechanical operation. From this phase it was but a step to the adaptation of machines to the already specialized processes and the diversion of man power to the further establishment of a mechanized order.

The machines and workshops, like the raw material and the products, were at no stage in the production process owned by the worker. The masses became wage earners and the two industrial classes, laborers and capitalists, came into being. Restricted local markets became national and international. Greater economic interdependence resulted and, consequently, greater liability to economic disturbances.

Economic Thought

The origin of economic thought is lost in antiquity. Definite economic ideas were first expressed in rules of conduct or in moral codes formulated by priests and law givers.

With the ancient Hebrews, and also with the Hindus, religion, ethics, law, economics, and philosophy were not separated in the thought of the times, but religion was the dominating influence.

The rules of both the Mosaic and Brahminic codes which bore upon economic matters had a religious significance. Everyday life was minutely regulated. Their philosophies were idealistic and lacked the hard-headed materialism which has led the Western peoples to glorify wealth as the essential basis of civilization.

In an effort to abolish discontent the Orientals tended to limit their standards, and that led to economic indifference. The Mosaic law aimed at a national solidarity that almost ignored the individual.

The Greeks regarded the State as dominant. Plato traced the origin of the State to the lack of individual self-sufficiency and to the advantages of specialization and exchange. The Athenians did not forbid interest but they argued about it and concluded that it was unjust. They did not differentiate between the social sciences, but they were keen analytical thinkers and left a philosophy which profoundly affected the ethics and economics of later thinkers.

The great service of the Romans to economic thought was the development of jurisprudence as a science. This supported a great degree of individualism through its doctrines concerning property, contract, interest, and other matters subject to the principles of equity.

The Middle Ages (476-1300 A.D.) constitute a period of coalescence. There was no real contribution to economic thought. The philosophy of the time tended to the visionary rather than to the practical. The doctrine of just price, based on an absolute value for each commodity, was promulgated.

The beginning of modern economic thought came in the period following the Middle Ages, and the first commercial policy - mercantilism - was evolved.

Mercantilism aimed at strengthening the hand of the government in its external relations. Every possible expedient was resorted to in order that exports should exceed imports and precious metals flow into the country. The importance of gold and silver was exaggerated.

In the government the mercantilists stood for absolutism and their doctrine was an aid to the political unity that was in process of development at that time.

In the formation of nations and states there always have been two distinct problems - the internal and the external. Internally there was strife between the local units and the central government, and externally there was the struggle with other growing states.

The first system of economic thought was evolved by certain French thinkers who established the school of Physiocracy. These men preached that nature was the source of all good, and

their influence was in the direction of agricultural pursuits and away from trade. They recognized raw materials as wealth.

Too much government was had according to the Physiocrats who had witnessed the havoc of the reigns of Louis XIV and Louis XV. The functions of the government were limited by their teachings to the protection of life, liberty, and property. State regulation gave way to laissez faire.

In 1776 Adam Smith published "The Wealth of Nations" which became the cornerstone of economic thought. His successors, who elaborated and amended his views, became the founders of what is known as the English Classical School of Political Economy. The methods of this school of thought were purely deductive, and the revolt of the Germans was a logical movement away from arbitrary thinking.

Adam Smith, influenced by environment, turned from agriculture to labor as the source of wealth. He visualized England as the workshop of the world, importing her agricultural necessities and her raw materials and exporting the finished products.

In the light of certain economic conditions brought about by the Industrial Revolution Malthus propounded his pessimistic prophecy that the means of subsistence would not support indefinitely the growth of population.

The German group, known as the Historical School of Economists, held that only by a collection and study of facts could an equitable viewpoint be achieved and sound laws concerning production and consumption and the distribution of wealth be stated.

The adoption by the Germans of a nationalistic policy which included the protective tariff can be traced to the teachings of the German Historical School as opposed to those of the Classical School.

The school of Austrian economists developed the theory of subjective valuation. Emphasis was placed upon psychological import and not upon material wealth. There was no significant national economy. The gratification of human wants was regarded as the real aim of labor and enterprise, and the economics of production and distribution undertook a consideration of the pleasure of the individual.

The world today is witnessing a recrudescence of mercantilist principles. There is a general broadening of the economic outlook, and a growing interdependence is displacing restricted national economy.

Discussion

The emergence of the State or the Nation, which was one of the prerequisites of the present economic order, came as a result of war.

The Spanish-American war ushered in the period of Imperialism and catapulted the United States into a position of world power. The World War hastened our financial and industrial supremacy.

On the other hand, the World War precipitated England into a relatively subordinate position in world economy. In the case of Russia - Who knows? Time alone will tell.

Is war therefore an economic curse or an economic blessing?

*Data indicate that the load placed by the War Department on industry in this country during the World War was about one-half the expansion caused by the business cycle 1921-1923.

War Dept. load on industry	\$5,263,000,000
(at 1913 prices)	
Change in value of products from 1921-1923 .	\$9,590,000,000
(at 1913 prices)	

According to these figures the War Department load alone would require only about one-half the expansion in production that took place normally in industry during 1921-1923.

A similar load could be placed on industry today without absorbing the existing slack. If the productive facilities of the country were operating at capacity and there was little or no unemployment this load would involve procurement measures of an entirely different nature.

In other words, the nature of the obstacles to be overcome differs with the phase of the business cycle, and the solution of procurement planning and industrial mobilization problems must rest upon sound economic judgment.

*Lt. Colonel H. K. Rutherford, O.D. Comparison of the War Load on Industry with the Changes Caused by a Major Business Cycle. November, 1927.

The economist knows that if the leading industries of the country are making money, the country as a whole is prosperous. He is able to make quantitative evaluation studies based on statistics which are available to him.

Manufacturing concerns can operate at optimum capacity only if there is a continuous demand for their products, consequently, if there is a falling off in the demand for certain commodities used in the basic industries a general decline is indicated.

It is interesting to speculate upon the effectiveness of Germany's peace-time policy of economic control. There existed a virtual monopoly of the dye industry, and home industry was assured of an adequate supply of raw materials from outlying sources.

Germany was able to subsidize her established economic policy to the preparedness measures which were incident to the war, but she would have undoubtedly have become a dominant economic power had not the World War intervened.

It is evident, therefore, as has been stated before, that any program of procurement planning and industrial mobilization will be influenced by the existing phase in the business cycle.

The economist, with his perspective on contemporaneous conditions, is able to advise concerning the formulation of State policies.

It is not the purpose of this talk to suggest preventives for the inevitable, nor is it contended that WAR is the corrective of a business depression. A definite correlation may exist between the two but it is not advocated that an economist sit at the right hand of the Chief of Staff and advise him to start a war simply because the country happens to be in the trough of a business depression.

Conclusion

There is very little time allowed in this school for the study of Economics. It is believed, however, that students of your capacity should get, in this abbreviated course, an understanding of the meaning and scope of Economics, and become familiar with the most common economic terms.

Economics is the science of business - and business as an art is based upon economics as a science. Similarly, the principles taught in the Army Industrial College, based upon sound economics, will become the science of procurement planning and industrial mobilization.

It has been stated that when man knows what his wants are, he seeks means of satisfying them, and sets up organizations to overcome the obstacles in his way. In other words, wants are the bases of all economic organizations.

Army supply services should, therefore, first figure out their requirements and then, through their organizations, survey their facilities and devise means for appropriating them to the specific needs.