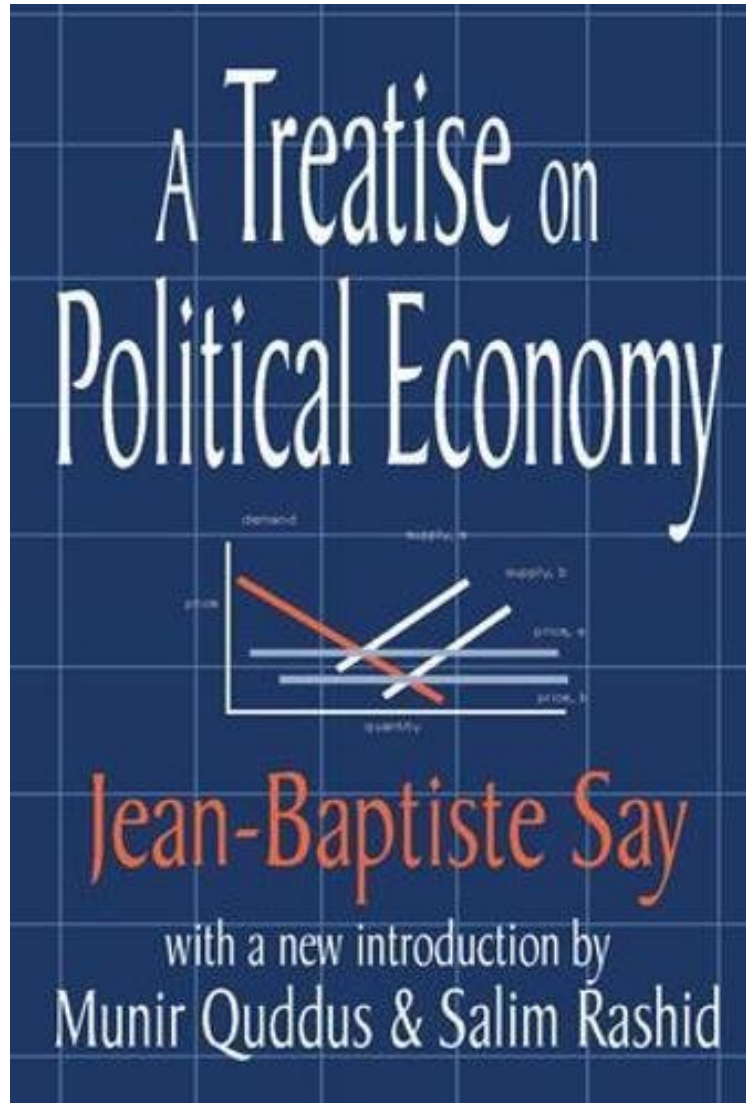


[Download] A Treatise on Political Economy

## A Treatise on Political Economy

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Say's treatise on political economy was a strong evolution in economic understanding. While re-presenting much of Smith's doctrines, Say adds an extensive amount of unique theory specific to the interaction of production and consumption. He set up the framework of general rules, while recognizing that general rules may appear to be violated because of "particular circumstances" (in other words recognizing that certain economic laws are true "ceteris paribus"). While all transactions begin with wants and end with consumption, production must always precede consumption. Production is required to turn wants into actual demand, and to turn demand into further production. Keynes's interpretation of "supply creates its own demand" is not an exact interpretation, as "supply creates the capacity for demand" seems more appropriate. While the number of insights are nearly endless in this book, a few original thoughts and interesting historical tidbits are as follows:-

- Capital displacement of labor is often slow and early notice is given. This often provides new labor opportunities previously non-existent.
- Divisions of labor tend to diminish bargaining power of laborers.
- Wages to product labor (human capital) is similar to investment in capital goods. In other words, consuming capital is worthwhile if the consumption leads to replenishment.
- Ultimately the realized value of consumption goods must reimburse the advances (and returns) of the chain of capital goods used in numerous rounds of production.
- All hoarded capital, unless stolen, must first have been received in exchange for an equal amount of production. Thus hoarding does not reduce capital below where it would have been without that exchange (though neither productive nor consumed if not reinvested).
- Balance of payment deficits are not problematic since money leaving is exchanged for good or capital of value. If consumed, it is the consumption that reduces wealth, not the trade. If money import is the only goal, domestic prices will reflect this and real wealth remains unchanged. The only benefit would be to purchase goods abroad (yet unaffected by the increased money supply), re-balancing the surplus.
- Before 1808, over-extension of copper coin diluted its value only relative to commodities and other monies. Caused regulation of proportion of payment which could be made with copper. Prices adjusted according to this regulation.
- Public banks in 17th/18th century charged on transfers/payments. Would purchase private short term (since deposits are redeemable on demand) commercial paper at a discount using bank notes convertible to specie. When they over-extended bank notes, banks would purchase bullion and drive the price of bullion up, encouraging people to melt money down and sell to the banks.
- Assignats were paper issued during the French Revolution backed by "public domains." The French government issued too many, then confusingly thought increased value of public domains meant more assignats could be issued. All assignats eventually lost value.
- Absolute improvement in material well-being occurs when quality or quantity increases for same amount of time worked. So prices can fall in an absolute sense even if prices of individual goods relative to one another remain similar.
- Influx of metals from American mines occurred simultaneous to increased purchases from foreign markets, counteracting inflationary pressures.
- In the Middle Ages, money was often lent either to spendthrifts or to prevent starvation (not necessarily for production). Hence interest was seen as evil. Super high rates resulted from scarce capital and the need to insure against weak contract enforcement.
- Taxing individuals and then buying their product is not stimulus, nor is it of equal value as just giving the money back, since purchases with that money require giving up goods/services.
- If consumption does not allow for reproduction, the stock of production capital diminishes, and may cause other capital uses to become unproductive since in a form which no longer produces demanded product. Think of materials and building labor skill in unproductive uses as a type of consumption. Matter cannot be destroyed, so consumption may just involve changing the form of capital or goods in a way which disallows further meeting wants without additional modification. Production chain supporting useless consumption is also wasted in a sense.
- When strapped for cash, France and others used to sell state offices to the highest bidder.
- Sales taxes can't be fully passed to consumers if quantity demanded falls at all from the higher price. If it does, competitive forces will drive some company with lower volume sales to reduce price, meaning both producer and consumer will split the burden in some way. The more elastic the demand response, the more the producer is burdened.
- Taxation in kind (taxes paid with products) was traditionally (and necessarily) applied to gross produce, resulting in net losses where there otherwise would not have been. Further, the public sale of the acquired products needed to be quick because of storage problems, meaning prices were bid down possibly even below costs just to be rid of the product. This would cause severe distress to those in already low-margin work, like agriculture, who would lose sales to the state and have to cut prices on their own remaining product.

Jean-Baptiste Say (1767-1832) has been described as a revolutionary, an author of scholarly books and popular tracts, a social philosopher, a successful entrepreneur-a remarkable Renaissance man. He is best known as author of the law of markets, known as Say's law, and as the first to coin the term "entrepreneur." Say's concern with the average interested citizen and his zeal for economic education for the masses is most apparent in his classic work, *A Treatise on Political Economy*. Readers will see that Say is without doubt a luminary of classical economics. He single-handedly revived the study of political economy from its decline and kept it alive during a difficult period of

opposition to liberal ideas. Say had a missionary belief that society will be best served if the principles of political economy are widely disseminated and understood by the citizenry. His organization of the Treatise's subject matter—production, distribution, and consumption of wealth—continues to guide authors of economic textbooks to this day. His treatment of the role of the entrepreneur as a contributor to production different from that of either the manager or the capitalist was the most advanced of his times. In their new introduction, Quddus and Rashid note that present-day readers of this volume will benefit from the remarkable freshness of Say's ideas. The longevity of this volume proves that good ideas can successfully withstand the test of time. The role played by the Treatise in spreading liberal economic ideas and especially laissez-faire and free trade in France, the rest of Europe, and in the newly independent United States must also be appreciated. One suspects Say would have liked nothing better than to have his Treatise attract entrepreneurs, managers, and other non-specialist readers to economics. Given the emphasis on capitalism, free markets and unrestricted global trade republication of this great classic could not be more timely. Political economists, social philosophers, and those in business fields will find it indispensable reading.

About the Author Jean-Baptiste Say (1767-1832) taught at the Conservatoire des Arts and Mtiars and Collge de France. He is the author of *Trait d'conomie politique*, *Lettres Malthus*, and *Cours complet d'conomie politique pratique*. Munir Quddus is professor of economics and chair of the department of economics and finance at the University of Southern Indiana. Salim Rashid is professor of economics at the university of Illinois, Urbana-Champaign.