

VOLUME 3

THE COLLECTED WORKS OF ARTHUR SELDON

# Everyman's Dictionary of Economics

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(includes cumulative index)

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# Everyman's Dictionary of Economics

ARTHUR SELDON  
and F. G. PENNANCE

*Edited and with a New Introduction*  
*by Colin Robinson*



LIBERTY FUND, Indianapolis

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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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## INTRODUCTION

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### Background and Editorial Approach

*Everyman's Dictionary of Economics*, which is the sole work in volume 3 of *The Collected Works of Arthur Seldon*, may seem an unusual book for a classical liberal economist to write: it not only surveys the ideas of like-minded economists, but, as a dictionary designed to help the layman understand the terms used by economists, it also covers a very wide range of economic thought. It is a major work about which, in the publicity for the second edition, the authors claimed quite reasonably that

it explains all the terms and ideas that Everyman (and Everywoman) is likely to meet in the press, broadcasting, in public debate and private conversation. And all this in short essays written in plain English.

The first edition was published in 1965 by J. M. Dent,<sup>1</sup> famous for its Everyman series; the second edition, also published by Dent, appeared in 1975. The second edition, reproduced here, differs substantially from the first. In the intervening ten years there had been many developments in economics, and, in particular those years saw the beginnings of the “counter-revolution,” which brought about a retreat from Keynesian economics and a revival of classical liberal ideas. Consequently, the new ideas had to be incorporated: the first edition, consisting of 225,000 words, was pruned and brought up to date, with the addition of almost 600 new entries and some 90,000 words.

Seldon was asked by Dent to compile the *Dictionary* in 1960, a time during his early days at the Institute of Economic Affairs when it was not possible

1. J. M. Dent, which was founded in 1888 and began its Everyman's Library of low-priced classic texts in 1906, no longer exists, having been purchased by Weidenfeld and Nicholson in 1988.

for him to devote the necessary attention to such a large project. Compiling a dictionary is a different matter from the composition of a specialized text. In writing for a lay audience, the author of a dictionary has a responsibility to carry out the necessary research across a wide range of economic ideas to ensure that the reader, consulting any given entry, finds it both enlightening and directed toward related ideas. To help him in that task, Seldon was fortunate to find a collaborator in his friend F. G. Pennance, who later became professor of land economy at the University of Aberdeen. In addition to Pennance, Seldon also had help from a number of specialist contributors (listed on pages xxiii–xxiv).

The prime editorial responsibility for the extensively revised second edition fell on Seldon, who also supplied about three-quarters of the entries. Pennance contributed entries on the economics of land, property, and related matters and also helped with editing. As Pennance remarks in the acknowledgments:

Apart from some entries on specialist topics and general editing, the whole burden of revision, new writing, and compilation was undertaken with characteristic unselfishness by Arthur Seldon (p. xxii).

Pennance checked the manuscript on his return to the United Kingdom, but unfortunately he died just before the book was published.

The *Dictionary* received some enthusiastic reviews. For example, the late Patrick Hutber, a well-known and perceptive British economic journalist of the time, wrote in the *Sunday Telegraph*:

If the layman could have only one book beside him to guide him through the economic maze, which should it be? Beyond a doubt the new edition of Everyman's *Dictionary of Economics*. . . . With this by your side there is no excuse for not understanding what economists are talking about . . . or what are the great issues of economic debate.

Subsequently, the *Dictionary* was translated into both Italian (*Dizionario di Economia*, Milan, 1979) and Portuguese (*Dicionario de Economia*, Rio de Janeiro, 1968).

Unlike many dictionaries of economics, *Everyman's* avoids unexplained jargon, which is not surprising, given Seldon's devotion to ensuring that IEA authors explain themselves "in plain English." He also edited the contributors' work for consistency to ensure that the entries could be understood by the layman.

For example, consider the entry for "Investment Appraisal" (p. 373–74), a subject that most dictionaries explain in mathematical symbols and techni-

cal language. First, there is a careful explanation of the elements of investment appraisal, including the basic equations for the net present value and internal rate of return approaches. But that explanation is followed by a conclusion that places methods of investment appraisal in context—namely, that the major issues are not the technical aspects of discounting and compounding but rather how to deal with uncertainty and how to quantify benefit and cost flows.

On an even more technical matter, take the entry for “Skedasticity.” “Homoskedasticity” and “heteroskedasticity” are specialized terms in econometrics that often baffle students. The *Dictionary* describes skedasticity as a “fancy Greek term for variance” and goes on to explain briefly its significance as a measure of dispersion. Correlation and regression are similarly explained in nontechnical terms and placed in context by an explanation of the dangers of relying on statistical associations when the theoretical bases of the relevant equations are not clear.

Another feature of the book that is helpful for the general reader is the Related Subjects Index, which places each entry within one of fourteen categories (such as “Development of Economic Thought,” “Industrial Structure and Organisation,” “Money and Financial Organisation,” and “Scope, Method and Sources”). This method allows the reader of one entry to refer to other entries in the same category, which is easier on the reader than the more usual dictionary method of adding a string of cross-references at the end of each entry.

### Scope of the Entries

The scope of the *Dictionary* is ambitious. Seldon’s aim, as explained in the introduction to the first edition (page xxi), is to reach

every man who comes new to the subject: the scholar at school, the student at university or the maturer citizen.

Examples and applications are taken principally from the British economy, but they come also from the United States, continental Europe, and other parts of the world. The selected entries described below will help to illustrate the scope and nature of the book. In particular, they show how Seldon’s view of economics—and, in particular, his classical liberal ideas—shine through the entries.

An important and fundamental feature of the book is the attention Seldon pays to the history of economic thought, for which there are more than 170 entries, about one-eighth of the total entries. There is even an entry on

“Economic Thought” (pp. 220–25), which briefly summarizes developments in the subject since the seventeenth century. Seldon has always been conscious of the dependence of present scholars on those of the past. Economic ideas have evolved over the centuries, from the writings of the Greek philosophers and scholars such as Thomas Aquinas to Adam Smith and his immediate forerunners to leaders on the subject today.

The *Dictionary* therefore devotes considerable attention to concise biographies of the most prominent economists, giving the reader a sense of how the economist has developed. The first edition deliberately eschewed listing any living economists, but the second edition includes many of the more-famous economists of the twentieth century. Thus, along with the great classical economists, there are entries for people such as John Maynard Keynes, Milton Friedman, Friedrich Hayek, Harry Johnson, Kenneth Arrow, Lionel Robbins, James Buchanan, George Stigler, Gary Becker, and many others. Each biography explains the essence of the economist’s ideas, along with details of his or her professional career, and provides a list of major works.

The entry for Hayek, for example, explains the nature of his disagreements with Keynes and discusses his contributions to economic methodology, emphasizing his view that prices communicate indispensable information to consumers and producers.

Leading schools of economic thought (for example, the Austrian, Cambridge, Chicago, Manchester, and Virginia Schools) all have entries. Of the Austrian School, for example, the reader learns that its analysis is

founded on price-changes as sources of empirical information about changing conditions that is not obtainable from other sources or by other methods . . . in sharp contrast to the aggregative (macro-economic) approaches of other schools which . . . neglect the market processes that determine *relative* prices and equilibria of different though interconnected goods. (p. 33–34, italics in the original)

The history of the Chicago School, “a group of disciples of liberal economic philosophy” (p. 102), is traced, and its approach is summarized as emphasizing

the empirical testing of economic hypotheses, an approach not always shared by liberal economists elsewhere. (p. 102)

The principal characteristic that distinguishes *Everyman’s* from a similar reference work compiled by a present-day economist is that, although Seldon is careful to set out the mainstream view on each topic, he goes further by also explaining the classical liberal perspective. A few examples from the entries will make the point clear.

First, consider the entry for “Competition.” Economists differ significantly in what they mean when they refer to “competition,” or “competitive markets.” Neoclassical economists often equate competition with perfect competition—an abstraction from the real world in which the market contains very large numbers of buyers and sellers, in which the products of different firms are identical, and in which there is perfect knowledge (an assumption that ensures that such a market can never exist). In the long-run equilibrium of this kind of market, price is equal to long-run marginal cost and all “excess” profit is eliminated by the force of competition (though the model includes no description of the competitive process itself).

The definition of competition is much more than a technical matter: it influences the way economists see the scope for government intervention in the economy. If a “perfect” market is taken as the standard against which other markets should be judged, other “imperfect” (and, by implication less desirable) market forms are then identified, going under the technical titles of imperfect or monopolistic competition (where products are differentiated), oligopoly (with a small number of sellers), and monopoly (a single seller). Mainstream “welfare economics” treats these non-“perfect” forms of markets as departures from what is desirable, and it thereby provides an apparent intellectual justification for widespread government intervention. If market “perfection” is the aim, all real-world markets fall short of that ideal and so every market apparently becomes a suitable case for government action.

In addition to explaining these “perfect” and “imperfect” market forms in the entry for “Competition,” here as elsewhere, the *Dictionary* is careful to show the reader that there are different points of view among economists. But it then goes on, as most other dictionaries do not, to discuss competition in the Hayekian sense, as a process of discovery:

Competition in its fundamental social, dynamic purpose is a device for *discovering* demand and supply (in their everyday sense, i.e. what people want and how to give it to them) rather than merely *responding* to existing wants and techniques. (p. 130, italics in the original)

It is, as the *Dictionary* says, competition in this sense that is “most relevant to political debate on the desirability of a competitive economy” (p. 131). Competition not only provides incentives to discover and supply the wants of consumers and to improve efficiency but also provides a means of

diffusing power and responsibility throughout the community and of continually widening the area of freedom and opportunity. (p. 131)

Seldon goes briefly through the problems that may arise in competitive markets—the so-called market imperfections and failures—such as monopolization and possible failures to take into account social costs and to provide public goods such as defense and law and order. But he is careful to direct the reader's attention to the fundamental idea that competition is a process of discovery and to explain the circumstances in which the competitive process can fulfill its social purpose:

It requires a framework of law and institutions on property, contract, business organizations, etc., to direct private effort into channels that ensure public advantage. (p. 132)

“Market Forces” similarly sets out the classical liberal notion of the market. After explaining the mainstream view—that “the power of the state should be exerted to achieve results different from those that would emerge from market forces” (p. 425)—Seldon points to the liberal market idea that, “in general it is better policy to exert power so that it harmonizes with human proclivities (as expressed in market forces), not against them” (p. 426).

The entry for “Price Mechanism” explains how government and other controls have, in some cases, damaged the working of the price mechanism, which is the device for

limiting to particular uses the use of resources and the consumption of goods with alternative applications . . . a means of guiding, controlling and “rationing” production and consumption. (p. 516)

“Profit” takes the reader through the views of the early classical economists (profit as a reward for risk-taking), and those of J. B. Clark (profit stems from change), to Frank Knight's theory that profit results from uncertainty, before explaining that profit is present in all kinds of economic activity and in any kind of economic system.

“Free Trade” traces the development from classical times of the doctrine that free trade allows best use of the world's resources and maximizes standards of living. Seldon also discusses the qualifications to the free trade case but concludes that they do not represent “a rebuttal of the underlying case for free trade.” He explains the growth of protectionism, in public choice terms, as a result of the power of pressure groups that know that any benefits of protection will be concentrated on their members, whereas the diffused costs will be borne by the community at large.

“Individualism” summarizes the development of the idea that human institutions can successfully evolve without “a directing mind or deliberate

design” and also presents the opposite view, which justifies “social engineering.” Regarding the critique of individualism that markets are too often monopolized rather than competitive, Seldon says that individualists would answer that lack of competition is often the result of state action that tolerates or encourages monopoly.

Perhaps the best way to summarize the *Dictionary of Economics* is to say it has stood the test of time. Nearly thirty years after the second edition, and nearly forty years after the first, the *Dictionary* still provides the reader with a comprehensive view of the scope of economics and the meaning of the main technical terms. Moreover, it imparts a sense of how economic thought has evolved over the centuries and, in its refusal to accept the conventional view about the virtues of government intervention—a view even more marked when Seldon wrote the *Dictionary* than it is now—sets before the reader the challenge to that view from the great classical liberal scholars.

*Colin Robinson*

## INTRODUCTION TO THE SECOND EDITION

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The Second Edition is a revised and considerably enlarged version of the First, which was published in 1965. First, the original material, some 225,000 words, has been updated and pruned and then increased by 90,000 or so words of new matter. In conformity with the spirit of the First Edition in explaining and illustrating economic concepts rather than merely describing them, the up-dating has covered developments in economic thinking rather than historical detail. The latest information is inappropriate in a volume with an intended life of perhaps ten years and will in any case probably be out-of-date as soon as it is published, or even before in view of the lag of over a year between completion of writing and publication. Up-to-date statistics are in any event more appropriately sought in annual abstracts or statistical year-books. Where quantities have been thought desirable to indicate broad orders of magnitude, they have been conveyed in round numbers and for recent trends (“in the early 1970’s,” “by the mid-1970’s, etc.”) rather than for the latest year or quarter.

Second, many new entries have been added on economic concepts that Everyman might meet in the press or on television. These new terms include some that have come into use in everyday language only recently and are often used imprecisely and misleadingly.

Third, the opportunity has been taken to fill gaps in the First Edition’s coverage which had to be left because of limited space. These new entries include many of especial value to students approaching the subject for the first time; and there has been a large expansion in their numbers in schools, polytechnics and universities since 1965. But they will also be of interest to adult newcomers to economics who want to know what economists are saying and why they differ among themselves.

Fourth, there are numerous new entries on concepts evolved in the last ten years in the development of economic thinking and theory. These are of several kinds. There has been continuing reappraisal of the Keynesian ap-

proach to economics and increasing doubt whether the Keynesians (i.e. economists who use Keynesian methods of analysis) are accurately reflecting what Keynes said or meant, or what he would be saying in the conditions existing in the 1970's. For these conditions are at the opposite end of the economic spectrum to those of the deflation and unemployment existing in the 1930's when he wrote his major work, *The General Theory of Employment, Interest and Money*. The informed general public and often the student, at least in Britain, is given or gathers the impression that economic thinking is still predominantly Keynesian, and that it has displaced the classical economic thinking. In Britain, Keynesian economists continue to exert a strong influence on economic teaching and policy; in the USA, classical and neo-classical economics contest much of Keynesian theory, and in some respects are displacing it. In Britain it is less generally known that the changing balance between Keynesian and classical economics is being redressed in favour of the latter.

There have also been developments in the economic theory of information, a new emphasis on the theory of property rights, refinement of the theory of costs and of the firm, a new interpretation of unemployment, and an extension of economic theory to areas of human behaviour and action not conventionally considered to be within the competence of economists; here a new section of the Related Subjects Index (No. 13) has been created to accommodate the main concepts in the application of economic theories to charity, crime, marriage, politics, revolution and other new topics.

Fifth, it has been decided to add entries on living economists whose contribution to economic thinking can be presented and appraised briefly. Living economists were intentionally omitted from the First Edition, but if Everyman is to understand the concepts and principles developed and debated by economists, he (or she) should know something of the main thinkers and theorists who have produced them in recent years. Over one hundred new entries have been added on living economists, some of whom are becoming household names through the medium of the press and television. Most of them are British, but there are also some in America and Western Europe, and several in Eastern Europe and the USSR.

*Everyman's Dictionary of Economics* differs from other works of reference by focusing on fundamentals of economics rather than on what may be fashionable and therefore ephemeral concepts, terms or meanings. These fundamentals change slowly; they are gradually refined and supplemented. But attempts to explain them to newcomers should not fail to indicate that economists differ, even about some fundamentals, although their differences are

often over value-judgements about how society should be organised rather than about the material and language of economics.

*Everyman's Dictionary of Economics* also avoids being loaded with definitions of essentially financial, statistical, or technical terms which are better consulted in specialized works of reference.

Although increasing use is made of mathematics in teaching economics, the main principles are explained here in plain English, and mathematical symbols have been reduced to a bare minimum. They have been introduced in several entries on land and capital for the convenience of students.

It was thought that for a work of reference with a life of some ten years it would be inappropriate to include a list of readings which, like statistics, would become out of date after two or three years. The short list of classical texts has been retained, and students may pursue the subject further in Alchian and Allen, *University Economics*, International Paperback Edition, Prentice Hall, 1974.

*September 1974*

A. S.  
F. G. P.

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September 1974

A. S.

### **Professor Frederick George Pennance 1917–1975**

Fred Pennance was only in the last two or three years becoming known as an economist with an acute, original, and courageous mind. He was, in my view, perhaps the best analyst of land economics in Britain, and his repute was extending to North America. He brought his insight into general economics, mature judgement, and scrupulous integrity to all he did—from the teaching of university students to his too rare writings and his appearances at conferences. Thousands of former students in industry and government owe him gratitude for their grounding in economic methods of thought.

His professional writings were mostly articles in economic and specialist journals and papers addressed to economists and laymen. *Everyman's Dictionary of Economics*, the longest work in which he collaborated, reflects his influence. He was persuaded to compile the First Edition with me, and when

xx Acknowledgements

chance required the Second Edition to be prepared during his absence at the University of British Columbia his first task on returning was to scrutinize and amplify the revisions to ensure that the requirements of students were satisfied.

Fred Pennance was conscientious in thought and teaching to a degree that confined his analytical insights mostly to students, colleagues, and friends, but in his last years his professorial appointments in Aberdeen and Vancouver were making them more widely known.

This book embodies his qualities.

October 1975

A. S.

Inopportunately, the preparation of the Second Edition of *Everyman's Dictionary of Economics* coincided with a twelve-month absence from the UK which effectively prevented my undertaking more than a nominal share of the work involved. Apart from some entries on specialist topics and general editing, the whole burden of revision, new writing, and compilation was undertaken with characteristic unselfishness by Arthur Seldon, without whose energy and perseverance the publisher's deadlines could never have been met. Without relinquishing any share of errors of omission or commission that may remain, I gratefully acknowledge my very heavy debt to him. My thanks are also due to Professor Michael Goldberg and Mr. Ray Heung, University of British Columbia, for advice and research assistance.

October 1974

F. G. P.

## INTRODUCTION TO THE FIRST EDITION

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The purpose of this book is to explain shortly, and as far as possible in simple everyday language, the main ideas and concepts of the science of economics in current use by economists who teach them or who apply them to industry and public affairs. It is intended for every man who comes new to the subject: the scholar at school, the student at university or the maturer citizen. We have tried to include the ideas and concepts the reader is most likely to meet in books, newspapers or broadcasting. The book is therefore selective, but we have tried to make the omissions few.

To help the user interested in one of the broad subdivisions of the subject, such as banking, structure of industry, international trade, in which there are many entries, and to avoid frequent cross-references, we have tried to construct a framework of entries for each main subdivision. In the body of the book each entry bears the number of the chief subdivision into which it falls, although many entries are related to entries in other subdivisions. And in the Related Subjects Index the entries are listed together under their main subdivision. The subdivisions are themselves, of course, interrelated, and the reader may need to refer to the entries in more than one.

For readers whose interest in the subject is aroused we have compiled a reading list of books for the subject as a whole and for each subdivision, and prepared entries on “Sources, Statistical (economic)” and on “Associated Sciences” that have a bearing on economics.

Economics is a living science. Ever since it was systematized by Adam Smith in 1776, economists have evolved new concepts to replace old ones. The central content—markets which bring together buyers and sellers of goods and services and the prices which emerge from the interplay of supply and demand—remains at the heart of economic theory, but the approach and emphasis of economists and the tools of economic analysis have changed down the years. It may be that some concepts in this book will have fallen out of use in the next five or ten years and that new ones will appear.

To show how economic thought has developed, we have given generous space to concise lives of the main economists who have contributed to and influenced it since Adam Smith. These biographies are necessarily incomplete because we have had to omit some minor though interesting economists, and we have also omitted living economists mainly because their contribution is unfinished or changing and therefore especially difficult to assess. But we have included some economists whose main contribution was to economic policy and public affairs, and some living economists are referred to in other entries.

In the last thirty years economic thought has been profoundly influenced by the writings of the late Lord Keynes who, in a celebrated book in 1936, argued that the classical economic theory of markets, employment, interest and money related to the *special* circumstances in which all resources are fully employed and that his theory was a *general* one applicable to a world of either full employment or underemployment. Lord Keynes died in 1946. Since then his writings have in turn been increasingly reinterpreted as a special case both by some followers and by some economists who had not wholly accepted his writings. The content of economics is in a state of change, and this book is therefore not a final statement of economic doctrine.

Economics is in the last resort a technique of thinking. The reader will therefore need to make an intellectual effort, more substantial for some entries than for others, to get the most interest and value out of the dictionary.

We have drawn on a number of specialist contributors. Their drafts were edited to remove or minimize overlapping or inconsistencies and to achieve some continuity of prose style. It was not possible, nor would it have been desirable, to remove all differences in approach or emphasis, and the attentive reader will detect them. In particular, the contributors differ in the extent to which they reflect the Keynesian and the classical systems of economic thought. In many cases economists are generally agreed about the basic ideas; where there are wide or important differences of interest to the newcomer they have been indicated.

The examples and applications are drawn mainly from the British economy, but there are also illustrations from many other parts of the world. We hope therefore that the dictionary will be found helpful and interesting to readers in Commonwealth countries, the USA and Europe, and wherever English is read and understood.

In attempting to explain economics for the newcomer we have faced a difficult task. Some economists would say it was impossible or even unde-

sirable. To attempt to simplify is to run the risk of over-simplifying. It may be that many entries will be too difficult for some readers and not sufficiently sophisticated for others. We claim only that we have tried to include the essential without over-simplifying to the extent of misleading the reader.

Where entries touch current affairs and public policy they inevitably tend to reflect the views or judgement of the writers. We have tried to avoid doing violence to the basic principles.

One final general caution may be desirable. Economics uses everyday words in a more specific sense than that in which they are used by the non-economist. "Demand," "supply," "cost," "market," "rent," and many other words do not mean the same to economists as they do in everyday usage.

It is over half a century since Palgrave edited the celebrated *Dictionary of Political Economy*. It would be difficult to emulate this work of scholarship, but in view of the increasing importance of economics in public affairs and everyday life it was felt there was need for an up-to-date work of reference with an analytical approach that emphasized the essentials of economic thought and showed its power to illumine public policy, the activities of industry and private action. This present attempt is the result. To help remove its imperfections and make it more valuable for readers, we should be grateful to them for comments, corrections and suggestions to bear in mind in revising it for further editions.

We should like to thank our fellow contributors whose names are listed below for their skill and ready co-operation in meeting our requirement to set down the elements of economics in a few words, and the publishers, in the person of Mr. E. F. Bozman, who conceived the project, for their understanding patience in the face of the ill-health and the pressure of other work that have repeatedly delayed completion.

June 1964

A. S.

F. G. P.

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