FIRST PRINCIPLES
IN MORALITY AND ECONOMICS
on which depend personal well-being and social health and harmony

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Contents

Ricardo's Law Of Association Operates Simply

There are several reasons for emphasis on Ricardo's Law of Association: (1) although it is one of the greatest discoveries in the social sciences, the law is practically unknown to business men, to moralists, and to nearly everybody; (2) although it is a fundamental law in the field of ethics, it is not taught in theological seminaries; and (3) although the Scriptures of the Christian religion declare repeatedly that God rewards the good and punishes the evil, nevertheless that idea is often repudiated with ridicule and rage by professing Christians, because (apparently) they lack knowledge and understanding how Ricardo's Law demonstrates that what Scripture teaches must be true.

Scripture unequivocally teaches that God rewards the good and punishes the evil; consider what appears in Joshua 1:6-8:

Be strong and of good courage; for thou shalt cause this people to inherit the land which I sware unto their fathers to give them. *Only be strong and very courageous, to observe to do according to all the law, which Moses my servant commanded thee: turn not from it to the right hand or to the left, that thou mayest have good success whithersoever thou goest. This book of the law shall not depart out of thy mouth, but thou shalt meditate thereon day and night, that thou mayest observe to do according to all that is written therein: for then thou shalt make thy way prosperous, and then thou shalt have good success.*

Is this statement to be interpreted as meaning that God personally, by *special* action, will reward whoever obeys the Mosaic Decalogue? Is what is commanded merely what ought to be done, plus a *special* reward; or is it *universal law* the existence of which is obscured only if an extraneous factor intervenes? Is the Decalogue limited to a moral imperative, or is it "scientific" law?

Our answer is that the Mosaic Law is more than a moral imperative; it is a *law* rooted in the nature of things as created. This *law* cannot be violated with impunity. The alternative view is that punishment does not reliably follow upon evil, nor reward upon good: there is no real *causal* relation.

Maybe it will be well to let the two views survive side by side with gentle tolerance on the part of the individuals who hold the two opposing views. But if an attempt is to be made to diminish the extent of the difference, Ricardo's Law will probably be the most helpful that can be found. Ricardo discovered the Law, which has his name attached to it, by making calculations on whether *free trade* between nations was a good thing *in total* and for *each party.* It is well known that most people are against free trade. They believe it hurts them, but that it helps the foreigner. Abandoning the precepts of their religion rather easily, they then decide they are justified in preventing the foreigner from prospering — and so they favor a "protective" (?) tariff (1) to "protect" themselves from a harm they fear (imagine); and (2) to hurt the foreigner by frustrating him. Ricardo demonstrated — the proof is incontrovertible — that the idea is unsound; he demonstrated instead that voluntary trade between nations helps *both* nations.

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(The situations justifying exceptions to free trade do not touch the basic principle involved, and cannot be discussed here.)

Ricardo's achievement was one of the foremost in the history of social thought. But it put him in conflict with most of the great thinkers of the ages — Plato, Aristotle, Montaigne — and many, many others.

Ricardo, to make his argument drum tight, made assumptions that most people would consider destructive for his case. He assumed one country richer, stronger, wiser, better *in every respect* than another which was unbelievably poor. The rich country, which by careless reasoning we all would say could not benefit by dealings with a wretchedly poor one, is *enriched* by the latter; and vice versa. They do *each other* good.

Once that has been worked out conclusively for foreign and domestic trade, it takes no great ability at generalization to conclude that Ricardo's Law underlies *all* human relations. It is a pity therefore that the Law is not taught in seminaries.

(For an explanation of Ricardo's Law see our Volume IV, Numbers 7, 8 and 9. See also last month's issue (Volume V, Number 1) for an abbreviated presentation. To avoid repetition we are not requoting the figures.)

Call the results of Ricardo's Law mysterious or the rewards of religion — call the results what you will — a reader's surprise is unabated unless he analyzes *why* the results are what they are.

Why, in the material referred to above, when Strongman and Feebler "cooperated" in building their houses, were both better off, the competent Strongman as well as the untalented Feebler?

The answer is: Feebler, the much less competent, let Strongman do what he could do *four times* better than Feebler. Feebler, on his part, took over work that Strongman could do only one-half better. *Full use was thus made of Strongman's best talents;* he could not have used his *extraordinary* talent to the full, *if poor Feebler had not taken over work at which Strongman was not so spectacular,* although still better than Feebler. Feebler was the genuine *benefactor* of Strongman; the weakling, Feebler made a debtor out of the superman!

Further, the counter side is equally comforting to Strongman. Strongman let Feebler do what he was *least incompetent* to do, namely, pound nails. Strongman freed Feebler from doing what he was *very* inefficient in doing (sawing), so that he could concentrate on the activity at which he was *relatively* the least ineffective.

That is the *logic* of the seemingly mysteriously good results of the operation of Ricardo's Law. No *mystical* explanation is necessary.

But what does Ricardo's Law have to do with religion, or morality, or the revealed will of God? Are these not irrelevant?

To this question the answer is *no*. Ricardo's Law cannot operate — is null and void — when unhinged from the Law of God, and it cannot have reality or meaning unless it is undergirded by the Sixth Commandment, *Thou shalt not kill.* The relationship may appear obscure, but not if the full meaning of the commandment is indicated by a variant in the phraseology, *Thou shalt not coerce.* If either Strongman or Feebler coerces the other — so that the "trade" is not voluntary — then the benefits are jeopardized. Why? Because if either of the men is coerced, he is obviously being compelled to do what is against his own interests. Then Strongman is no longer working at what he does four times better than Feebler; nor is Feebler working on what is his least inefficiency. Coercion is not necessary to persuade men to do what is good for themselves; it is only justified to frustrate them from doing what is bad for others.

Although Ricardo's Law is not the fundamental law and although the Sixth Commandment is, nevertheless Ricardo's Law explains *how* things happen when the Sixth Commandment is obeyed. The most important meaning of the Sixth Commandment is not discovered, unless Ricardo's Law is thoroughly understood.

Free enterprise is based, not on brigandage, or exploitation, or unmitigated selfishness. *Enterprise* itself (removing the word, *free*) might be based on such, but *free* enterprise must be understood to mean that neither party to a transaction is coerced by the other. The apologists for Capitalism always appeal to free enterprise *in that sense,* and with that definition. It is misrepresentation of Capitalism to imply that it does not favor *freedom* for all, but only for the Strongmans, not the Feeblers. The Strongmans do not really need to have recourse to coercion in order to be benefited by the cooperation of the Feeblers; nor vice versa. The system of *free* enterprise has its own motor mechanism. As to the brakes that the system needs — avoidance of coercion — the necessity of those brakes has never seriously been denied. Nobody, to our knowledge, has ever had the boldness to equate capitalism with anarchism.

Utilization of Ricardo's Law in the teaching of Christian ethics will eventually revolutionize those ethics. Presently the only manifestation of brotherly love that many people know and recommend is *charity,* even coerced charity (a contradiction in terms). Charity alleviates distress. But it does not create prosperity. Charity is, from the viewpoint of social welfare, a negative device. Ricardo's Law — elucidating how cooperation (in contradistinction of charity) works — describes a positive device; it explains how prosperity *is* created.

Mission propaganda abroad, if it formulates the law of brotherly love as charity (alms) or redistribution, is destructive of the growth of a primitive society. Brotherly love *based on cooperation,* that is, working according to Ricardo's Law, will genuinely result in increased welfare in those societies.

The prospects that Ricardo's Law will be properly incorporated into Christian ethics is not bright. The reason is that then it will be necessary to go back to the Law of God and obey it. Individual and group coercions will have to be condemned. It is not obvious that moralists are prepared to do that. More is the pity! — because *cooperation* à la Ricardo's Law will do many times more for mankind than charity (alms) or compulsory redistribution of capital ever will. That is why some moralists do not accept what was quoted from Joshua. They wish to follow the charity, or really the redistribution, route. They do not wish the benefits of obeying Scripture via Ricardo's Law to prove right, as was promised in Joshua; that outcome would discredit their own solution — voluntary alms and coerced alms (redistribution). But most explanatory of all is the probable fact that they do not *understand* Ricardo's Law; maybe even that assumes too much; they may never have actually *heard* of Ricardo's Law.

For the time being, this ends our comments on Ricardo's Law. We drop the subject reluctantly, because of its overwhelming importance.

Charity, As Psychological And Social Poison

Charity has two aspects, one attractive and the other unattractive.

The attractive aspect consists in relief of distress, helping the fallen, creating good will, and showing appreciation for help. *Charity* in that sense is wonderful.

The unattractive aspect of charity is hinted at in the statement by Christ: "It is more blessed to give than to receive." There must be something about being the recipient of charity which is not attractive.

In the first place, the *unworthy* recipient of charity has a guilt or unworthiness complex, if he receives charity *through some fault of his own* — such as irresponsibility, wastefulness, debauchery, or what have you. To be in need of charity has an obvious stigma attached to it, *if* folly or sin is the cause of the distress which needs to be relieved. It was ever thus, and always will be.

The case of the *worthy* recipient is much better — the case of the sick, the handicapped, the genuinely unfortunate, the incompetent who can do no better. But even in these cases the feelings of the recipient are likely to be embittered by the thought that he is not self-supporting, but dependent on the kindness of others. *Psychologically* to be the recipient of charity is almost always bad.

Two men may sit side by side in church. One may be a recipient of charity, the other may be a giver of funds to charity. Except in ideal cases, the recipient will feel inferior and bitter toward his fellow-occupant of the pew; and vice versa, the giver will have an unadmirable feeling of superiority. This psychology is deplorable, but is in the nature of things.

But if *cooperation* is substituted for *charity,* then the psychological and social relationship can become wholesome. We refer to cooperation in the Ricardian sense.

What is the psychology of two men also sitting next to each other in a pew on a Sunday morning, who have interpreted *brotherly love* to be essentially *cooperation* in the Ricardian sense? Let us assume one of the two is talented; and the other inferior. But they *cooperate* together in the Ricardian sense of noncoercive exchange of services. What can *both* of these men think, assuming they hear a sound teaching of the Law of God in that church that Sunday morning? They will hear this:

1. That the talented man was benefited, *enriched,* by his cooperation in Ricardian exchange with the inferior man sitting beside him. The strong man is "under obligation" to the weak man for increasing his (the strong man's) well-being! Remember the case last month of Strongman and Feebler. In that case Feebler (the wholly inferior man) reduced the working hours of Strongman (the superior man) by 10 hours, from 50 to 40 hours, or *twenty* percent. Strongman should not look down on Feebler but up to him, because Feebler is Strongman's benefactor.

2. That the inferior man also was enriched by his cooperation with the talented man. He cannot properly look at his better-endowed neighbor with hatred, because he (the inferior man) has benefited from the cooperation of his talented neighbor.

Say what you will about the sin of pride, each of these men can have a genuine sense of pride in what he "contributed" to the increased result, what he contributed to the other, and further he should also have a genuine sense of appreciation of what the other contributed to himself. Understanding of Ricardo's Law is the basis of a healthy psychology for each individual, and a sound basis for social good will. Why should not this indisputable benefit from cooperation be vigorously taught in pulpits?

In all Scripture, there is no explanation of Ricardo's Law of (brotherly) cooperation, but only an acceptance of its consequences. That acceptance shows up in the form of a promise of prosperity as a result of living according to the premises underlying Ricardo's Law. The modern church should decide to teach explicitly and emphatically the *logical* explanation for promises in Scripture (for this life), or whether it will leave the explanation in the limbo of the unknown. Further, it should decide whether it will teach that *charity* is the essence of brotherly love, as has often been erroneously taught; or whether it will teach that *cooperation* is the real essence of brotherly love. If it teaches the latter, there will be less poison in men's minds and in social relations.

Skepticism Of Security In Old Age

A man may deceive himself, it is alleged, about the future security of his soul. That subject has been argued with sincerity and vehemence and skepticism. It is worth considering whether he is also living in a dream world of unreality about his *security* provisions for his old age, in this life, in the United States of America, in the decade 1950.

There are, we submit, four possible bases for security in old age, namely, (1) savings in kind; (2) charity of relatives or friends; (3) a contract between men involving eventual performance easily and without coercion; and (4) a contract involving coercion.

Is Social Security Not Funded But Founded On Pure Coercion?

Twenty-two years ago in my youth we were sitting around an evening dinner table in the Blackstone Hotel in Chicago. The meeting was for business, but had drifted to a discussion of social security. The dinner party consisted of local professional men, and the partners of a New York investment banking firm. The senior partner, under whose name the firm operated, and who was to become nationally known in the councils of the government of the United States, finally made this remark: "*There is nothing behind social security than the future taxing power of the United States.*"

Now that was a startling statement. Nothing behind social security than the *future taxing power* of the United States? Is the social security fund not funded? (*Funded* means that a fund of assets exists or is being accumulated to assure ability to make disbursements in the future; a non-funded plan means that such assets do not exist.) Has the obligation not been actuarily computed and payment rates set accordingly?

"Taxing power" in the future is not a savings fund. If the money had been saved, then all that needed to be done was to draw on the fund; no taxing *power* would be required. On the basis of this famous man's statement, what is being paid into the social security fund now is not what is going to be drawn out in the future. He did not explain what was happening to what was being paid in now. His statement was really a strong one, that there is *nothing* behind social security than the *future* taxing *power* — that is, the future coercion — of the government of the United States.

The foregoing makes clear that one man with a lucid mind did not consider social security to be funded in a real sense, and he indicated that all the belief that we are "saving" to supply funds for us to draw out in the future is self-deception. If an informed man makes a statement as we have quoted, then it should be worth the trouble to analyze thoroughly how social security in the United States really operates.

Types Of Old Age Security

In *Alice In Wonderland* the expression is used, *Things are not what they seem.* In economics, and in life generally, the same is true, things often are indeed not what they seem, because although *first* consequences of an action are easily observed, that is not true of the *ultimate* consequences. Economics can be described as the sciences of *final* (or even more accurately, *total*) consequences of an action of some sort. Economics laboriously traces the *chain* of consequences, and does not stop with the first link. Looking at the first link only often results in self-deception.

Social security is looked upon by many people as a system by which their employer and they set money aside up to the time they become 65 years of age, and then the money is paid back to the employees, and they have "security" in their old age. They presumably deny themselves something now (or the law requires it), and later they enjoy the fruits of their self-denial. It seems as simple as that. Nevertheless there is much more to the operation than appears on the surface, and it is these nonobvious phases of social security which we shall be exploring.

First, the question should be asked, who pays for social security? The *obvious* answer is — the employee one-half and the employer one-half. This impression is created by the fact that the employee suffers a deduction from his pay for one-half the monthly payment. The law reads that the other one-half is paid by the employer. As far as *accounting* is concerned that is true, but as far as *reality* is concerned, it is a fiction.

The employer pays nothing of social security, after the system has become regularly established. That a relatively few employers in a country would be paying one-half of the support in old age provided for the millions under social security is fantastic merely as an idea. What happens then? The employers — *of necessity* — pass the cost of their one-half of social security back (1) either to the employee, so that he really pays all; or (2) to the consumer, in the form of higher prices, which means that John Public is paying for that part of social security.

There is ever a great game of self-deception being played throughout the world — the game of trying to get something for nothing — something for yourself at the expense of the other fellow. And the game is at times partially successful, especially when the scheme devised is new and sudden in its application. But eventually experience (if not intelligence) results in people "adjusting" effectively so that they are not being victimized by others.

In regard to the real payment for social security, the employer is only an agent. He is like the paymaster of a corporation: he pays out a great amount of money, but it is not the paymaster's own money. The same is true of the social security reputedly paid by the employer; actually he is an agent either for the employee or the consumer. If for the employee, then it means that the employee would otherwise have received in the form of cash pay what the employer deducts to help pay for social security. If for the customer, then the employer is merely passing on to the social security fund an increase in the price of products equivalent to the amount that he is putting into the so-called old age fund.

I. Old Age Security by Saving in Kind

In order to explain an important phase of old age security we shall begin with the oldest and most fundamental kind of security attempted by men, namely, *savings in kind.*

In his old age, when he cannot work any more, a man will need food, clothing, shelter, etc. The first thing he can consider doing is to "save" in the form of nonperishable food, clothing, and shelter. That is the most primitive way of "saving in kind", or having what is now called "old age security." It may sound strange to pose the problem in that way, because few think in those terms. Nevertheless, this is one inescapable aspect of the reality of what takes place in a system of taking care of a man and his wife in their old age when they can no longer work for food, clothing and shelter.

This type of saving, or this way of obtaining *security,* is obviously the *only* way in an isolated situation. If there are no others than one man and his wife, they will surely die of hunger when they can no longer produce food because of feebleness in old age, unless they have saved for that situation a store of nonperishable supplies. It is either saving in kind, or else starvation or death from exposure.

Saving in kind must be performed by either a man himself, or by society in some manner for him. No clever device can save men from the problem of saving in kind. Unless this problem of "saving in kind" is candidly faced — in one way or another — no subsequent thinking on social security, whether simple or complex, will be realistic.

Savings in kind constitutes a *funded* plan.

II. Old Age Security Via Charity

But a man and his wife, both approaching feeble old age, may obtain security via *charity* — in the broad sense that their children or friends or society generally will support them. This means that the old people will be living off the easy surplus of the younger people or, if there is no easy surplus, they will be living off the hardship of the younger people. But in either event, the problem has been solved by *charity*. Only in very well ordered societies, where children *willingly* assist aged parents when they need it, is charity an acceptable solution. Charity may be a communist and also a religious ideal, but it is indicated in Scripture that *charity* is often a bitter solution *for the recipient*. When was residence in a poor house or on a county farm a dignified honor? When kept within family ties, charity as solution of old age security problems is tolerable; but no more. Outside of family ties, charity involves loss of position for the recipient, and dishonor — except (as said before) when the person is a victim because of a providential event beyond his foresight or control.

Charity is an *unfunded* plan.

III. Old Age Security By Contract

Neither saving in kind (*by a man himself*) nor charity having been found a satisfactory solution to the old age security problem, we come to a third type of solution, namely, by contract.

In this situation we shall consider three men: (1) Mortal, who wishes to provide for his own and his wife's old age; (2) Vestor, a young man, who is one of the two men to whom Mortal looks as being a potential source of food, clothing and shelter in his old age; and (3) Promise, the other young man, whom Mortal is also considering as a potential source of supplies in his old age. The problem for which a solution is being sought is: how does Mortal *insure his own security* in old age, when he in actual practice is unable to make adequate savings in kind.

It is at this point that Vestor and Promise come in for consideration. Mortal has a plan which he proposes to them. He wishes to discuss the problem with them to discover who will offer him the more favorable proposition.

Let us assume Mortal is now forty years old and Vestor and Promise both twenty years old. Mortal proposes to them that he will help them either to get more schooling, or will loan them money to build houses, or will finance their buying of equipment, and many other things — provided they will, after 25 years, when Mortal will be 65, thereafter supply him with a certain quantity of food, clothing and shelter. To simplify this, he puts his proposition in terms of money. He will pay them so much a month for the next 25 years. They will use the money temporarily, but they will eventually reimburse Mortal in the form of a monthly pension, which is calculated on the basis of paying back to Mortal all that he paid in, plus compound interest on the payments. (This interest factor is a complication which is not vital to our illustration and will hereafter be ignored.)

What Mortal is here doing is suggesting a contract consisting of turning over either to Vestor or Promise what might be called *present goods* (that is, for the next 25 years) in the expectation of getting back *future goods* (beginning only after 25 years). The contract involves an act of trust, namely, that Vestor (or Promise, whoever is selected) will honor the contract, namely, pay back what was paid him. In this *contract,* the risk is with Mortal. He pays money to the other man for 25 long years; in all that time he will get nothing back. Only in the 26th year and thereafter will Vestor or Promise have to perform their part of the bargain.

Getting back to *goods* rather than money, for the moment, this is what really must happen: Mortal helps support Vestor or Promise with goods (while he, Mortal, is in his high productive years and Vestor and Promise are struggling along), on condition that later when they are in their prime and have a good start they will then support him.

The proposed transaction, although a risky one for Mortal, has what is known in business as *mutuality;* it is good for both parties if the contract is honorably kept, and therefore it should be worth considering.

The probabilities are that Vestor and Promise will both be favorably disposed. They think of their present urgent need for help to get started on their careers. The amount which they must begin to pay after 25 years looks rather small to them because of the distance in time. Men are naturally optimistic. They may sensitively recoil from a commitment which must be paid next month, but they do not recoil fearfully from making a commitment to make payments far in the future. The present good means more to them than the future liability. Mortal, therefore, is in a position to choose with whom he wishes to make the contract, either with Vestor or Promise.

Now it happens that Vestor and Promise are men of different types. Promise is a man who enjoys living well. On investigation Mortal finds that Promise proposes to "save" nothing of what he (Mortal) will pay to Promise for 25 years. If he makes a contract with Promise, then all he will finally have as surety for payment is Promise's promise. Promise will not have any assets which he can sell when Mortal's pension is due, nor will Promise have any equipment in which he has invested, in order to increase his productivity so that it will be easy for him to pay Mortal his pension. In banking terms, Promise will have no *collateral* behind his commitment or note; his promise to pay is what bankers call *unsecured.* It is only as good as Promise's honor and future ability. That means that Promise, who will have been living well for 25 years partly on what Mortal paid him, will then have to live less well because instead of his income being his own earnings *plus* what Mortal paid him, his income then will be his own earnings, *minus* what he must pay Mortal as his pension. Two things disturb Mortal; he knows, if he deals with Promise that he (Mortal) will have no security behind his pension, and he knows Promise will be worse off when he must pay Mortal than he (Promise) has been for many years. Surely, dealing with Promise cannot appear to Mortal to be a good contract for him. A contract with Promise is, in pension terms, an unfunded plan.

Mortal turns to Vestor and considers him. Vestor is a different type; he is living below his income. He is saving money. He is buying property. He is acquiring machinery. He is expanding. But he is short of money, and is anxious to make a deal with Mortal. If Mortal pays him (Vestor) money now, Vestor is prepared to pay back later because he will have more machinery (and other property) working for him 25 years hence, and paying Mortal his pension then will be easy. In this instance, Mortal will be obtaining from Vestor two things; Vestor's promise *plus* the security of Vestor's assets and higher earnings because of his assets. Vestor's promise will be "secured" by his collateral, that is, assets which he possesses. A contract with Vestor is, in pension terms, a funded plan.

A man of good judgment, under the circumstances assumed, would not make a pension deal with Promise. Mortal will, therefore, probably turn to Vestor and make a deal with him. It gets down to this: Mortal helps Vestor by making payments to him. Vestor wisely *invests* those funds; he does not *spend* them for perishables. The investments he makes have a long life, and produce earnings for Vestor for many years, including those years when Mortal must be repaid.

Before the days of social security in the United States most "pension funds" were of the kind described in the deal of Mortal with Vestor — a secured, collateralized deal.

The program of Vestor cannot exactly be called "savings in kind." But in principle it is. He *invested* the money in *real* capital, factories, equipment, tools, etc. Such capital will gradually wear out, but while in the process of doing so, will "throw off" a larger quantity of products than would otherwise be available of consumers goods — food, clothing and shelter. What Vestor did was put Mortal's payments into what might be called *intermediate goods* — capital — which were, in a sense, not yet fully "savings in kind," that is, "savings in kind" which were in the process of "maturing" into consumers' goods which Mortal could genuinely consume, progressively as the years rolled along after he reached the age of 65.

IV. Old Age Security Via Compulsion

Let us introduce a few more people into our illustration, named Weeks, Sapp and Chain. They are not one generation behind Mortal but two generations. These three men are twenty years old when Mortal is 65, and Vestor and Promise are 45.

Let us assume that Mortal unwisely made an unfunded deal with Promise and not with Vestor. Further let us assume that although Promise has *invested* none of the money paid to him by Mortal, but has spent it in his daily living, nevertheless he (Promise) is a forceful person — he can bully the three young men, Weeks, Sapp and Chain effectively so that he can extract from them enough to pay Mortal his pension. Suppose, to make the point comparable to reality, that it happens that Promise is the mayor of the community in which the men live, and he taxes or assesses them enough so that he can pay Mortal the pension due him. This is, obviously, a case of "robbing Peter to pay Paul," but Weeks, Sapp and Chain may be comforted by the thought that a generation later they will be 45 years old and will be in a position of power, and then they will do the same thing to the next batch of 20-year-olds. This scheme, although one of compulsion and extortion, can be made to work, if Weeks, Sapp and Chain are stupid or weak.

Mortal, from his viewpoint, *appears* to have done as well by his "foolish" deal with Promise, as he might have done by his wise deal with Vestor. He received his pension money, did he not? What more does he want or care? In fact, why should not each series of pensioners as they come up to their pension age say to themselves: "We were subjected to extortion to pay the pension of the previous oldsters, but now it is our turn to take advantage of the generation coming up behind us, as the previous generation took advantage of us."

The transaction described can still be viewed as a contract. Instead of savings in kind by Mortal himself, a contract was made by him with a spendthrift who made no savings in kind in the form of investments or any form, but who had extortion power, when the time of payment had arrived, and who extracted from the weak or the deceived enough to pay Mortal's pension.

Such are the four ways in which old age security can be obtained: (1) simple savings in kind; (2) charity; (3) a funded contract involving an indirect savings in kind (the contract with Vestor, who accumulated *capital* by wise use of the prepayments by Mortal); and (4) an unfunded contract involving no savings in kind but supplementing the lack thereof by eventual extortion from third parties; or if not extortion, then by fraud; and if not by fraud, at least by taking advantage of the weakness or stupidity of third parties (usually younger people).

Of the four types two involve genuine *saving* or *investment* (funding), cases (1) and (3). And two involve no genuine saving nor investment (funding), cases (2) and (4). The latter two have one thing in common — the younger generation supports the older generation, but with this difference, it is charity in the first case, and compulsion in the second.

But if either method (1) or (3) is used then the older generation is not a burden on the younger, because the plan has been *genuinely* funded, the savings in kind do exist, or because something equivalent to savings in kind and better in fact than savings in kind, namely, real capital genuinely exists.

One important question is: what is the nature of the *capital* which Vestor accumulated?

Further, what happens under social security in the United States? Is the money paid into Social Security *spent* or *invested?* Is our social security *really secured by real savings in kind or its equivalent in the form of capital,* or is there nothing behind our social security except a promise, enforceable only by extortion? Is the agency to whom we paid social security taxes squandering the money as Promise did in our illustration? Is there in fact "Nothing behind Social Security in the United States except the future taxing power of the government"? Has Social Security in the United States followed the Vestor or the Promise pattern?

First, let us consider what the nature of *capital* is.

Bohm-Bawerk On Certain Aspects Of Capital

In an earlier issue (Volume III, pages 275-285) we quoted from Eugen von Böhm-Bawerk's *Capital and Interest* under our title of "What is the Character of Capital, Something Which God Did Not Create."

The purpose of that quotation was to show that *capital* is something which the first man did not have, but which he direly needed. The consequences inescapably were that the first man was *very* poor, and lived on the perilous edge of survival. Adam, *as Moses plainly indicates,* was destitute in the semi-swamp lands of the delta of the Euphrates — without clothes, without a sure food supply, without any shelter — surviving not by husbandry which was at the time probably above him but as a wandering berrypicker; without soap, sanitary facilities, scissors or a comb. (The contrary representations in children's Bible books are misleading.)

The reason why Adam was destitute was because he did not have any *capital.* In his case and in the case of all his descendants, the standard of living does not depend on natural resources, (which are not capital, in the correct sense), but on the development of capital by men. Where the amount of *capital per capita* is high — as in the United States — the standard of living is high; and vice versa, where the amount of *capital per capita* is low — as in Africa — the standard of living is low. This fundamental idea should not be ignored because, if it is, subsequent economic thinking will be erroneous.

Our interest in capital at this time is for a special reason, to wit, how can *capital* function as *saving in kind,* or as a substitute therefore, so that a man *can* have *security* — has a real fund to draw on in the old age. If comprehensive *saving in kind* is not feasible in the form of the twenty-year supply of nonperishable foodstuffs, and an equivalent amount of underwear, suits and dresses — and it is certainly *not* feasible — then is there no equivalent of real *savings in kind* possible — and consequently is there nothing *real* behind any old age security except either charity or coercion?

We here quote from Böhm-Bawerk's *Capital and Interest,* Volume II, with the sub-title, *The Positive Theory of Capital.*

When in what follows we quote extracts from this book, such extracts cannot be more than fragmentary. (The word *capital* has been defined in many ways by many people so that it is impossible to cover the subject adequately by short quotations. Because of the brevity of such quotations there is also danger of considerable loss of clarity.)

First we quote what Böhm-Bawerk in turn quoted from Turgot, the French economist (page 19):

> "Whoever acquires each year more goods than he finds it necessary to consume, can lay aside the excess and accumulate it. *It is these accumulated goods that are called capital* . . ."

Turgot's definition points to finished consumers' goods — genuine *savings in kind.* This simple definition is not adequate.

Böhm-Bawerk himself, for reasons which were decisive, defines capital *in general,* and then in two subdivisions, *social capital,* and *private or acquisitive capital.* He wrote (page 32):

> Let us call capital, in general, an aggregate of *products which serve as a means of acquiring goods.*

That is his *general* definition; it excludes surplus finished goods *in the consumers' hands,* like the goods Mortal (theoretically) might have stored up in his warehouse for twenty-five years from his 40th to his 65th birthday, and then consumed between his 65th and 85th birthday. Such a "hoard" of finished goods in Mortal's possession was not "products which serve as a *means of acquiring goods.*" Mortal's stock will be only a static hoard.

The fact is that there will *never* be a high standard of living if savings consist *only* in hoarding whatever surplus there is in the form of finished goods in consumers' hands. The storage and "keeping" problem is too great. Further, the hoard is only a *surplus;* it is not *an aid to increased production* which is what capital should ideally be.

Next, Böhm-Bawerk defines the subdivision of capital which he calls *social capital* as follows (page 32):

> Within this general concept [just quoted] let us set apart a narrower concept of *social capital.* We may define social capital as an aggregate of products which serve as a means of the acquisition of economic goods by society. Or, since such social acquisition of goods is possible only through production, we may call it an aggregate of products intended to be used for further production. . . . Let us cut it short and say an *aggregate of intermediate products.*

If Mortal is to have "*physical* security" in his old age in the form of real goods, then he needs for that a supply of what Böhm-Bawerk calls "intermediate products." These are products in the process of "maturing" into finished goods; every day, month and year, some will be coming to "maturity." In the meanwhile they are "intermediate products." It is also important that they do not all "mature" at the same time, but in steady sequence.

Later, on page 70, Böhm-Bawerk lists the items in *social capital* as follows:

> Social capital, as an aggregate of products intended to serve for further production, comprises the following.
>
> Productive improvements, adaptations and installations affecting real property insofar as they preserve independent character. This means such things as dams, pipe lines, fences, and the like. On the other hand productive installations that become completely identified

with land are to be excluded from capital for the same reasons that impelled us to eliminate land itself from capital.

Productive buildings of every kind — workshops, factories, barns, stables, shops, streets, railroads, etc. But social capital does not include dwellings or any other buildings which serve directly any cultural or consumption purpose, such as schools, churches, and courthouses.

Tools, machines and other productive implements.

Work animals and beasts of burden used in production.

Raw materials and auxiliary supplies used in production.

Consumption goods that are stored or kept "in stock" by producers and merchants.

Money.

We shall dispense with his elaboration and explanation of this.

Böhm-Bawerk excludes from capital the two *primary* sources of production — *nature* and *labor* of man. They are *not* social capital in any sound sense. Unimproved land is to be excluded for obvious reasons; it is always *there*. It is not saved; nor increased in quantity. Bare land means little unless cultivated. And so the bare land is not something being added, and therefore is "security" for Mortal in his old age. If bare land constitutes old age security, then Adam had the greatest security of any man who has ever lived — the whole world practically. Mere natural resources do not establish or constitute a genuinely *funded* plan.

The emphasis of Böhm-Bawerk is on "intermediate goods," which are in all stages of approaching a finished state and moving steadily in that direction. These "intermediate goods" were not created by God, nor are they pure labor; they are a combination of nature and labor, or better said, of nature "altered" by labor, so that "nature" is more useful when in the form of capital.

Now, what can happen? Mortal can reduce his consumption and save between his 40th and 65th year, and use what is saved to "support" either Vestor or Promise, whomever he selects, and that will permit these younger men, by being relieved of producing all the *consumers goods* they then need, to work at producing *capital*, for example, an engine that will save a lot of labor and last maybe for 25 years. That engine will permit greatly increased production; one engine may do the work of a hundred men.

But gradually the engine will wear out, while it works. In a figurative sense, daily fractions of the engine are transformed into the product it produces, ounce by ounce, and piece by piece, as fast as the engine depreciates. Clearly, in this kind of a situation Mortal's *saving* (what he sets aside to pay Vestor or Promise) is something that is better than very perishable food, clothing or shelter, although this capital is also perishable (maturing); but it is perishing rather *slowly*. Further, when Vestor or Promise pay back to Mortal what he put in earlier, then they are paying back, out of the proceeds of a piece of capital, which would not be in existence if (1) Mortal had not *saved* and (2) helped support them while they were building the engine (investing).

Or more accurately, in our assumptions, Vestor only would have used the support he received from Mortal to invest in *capital*, of longish life and productive. Promise, according to our assumptions, would merely have lived as much better, as Mortal was living less well. Between Mortal and Promise that would be merely a transfer of consumption; Mortal consumed less so that Promise could consume more, in the expectation that the roles would later be reversed and that then Mortal would consume more and Promise less. Contrarily, in the transaction between Mortal and Vestor, Vestor did not consume more, but *invested in capital*. That capital was in a sense a *savings in kind*, but savings in the early stages, and savings which would gradually mature, at a rate depending on the length of life of the kind of capital in which it was invested.

How shall we visualize this maturing as taking place? We quote Böhm-Bawerk, page 105ff:

> Let us imagine a community of 10 million able-bodied workers. Its annual allotment of productive forces therefore amounts to 10 million labor-years. In order to present the problem without presenting unnecessarily complicated figures, I shall ignore the currently available uses of land. Its hitherto accumulated stock of capital we shall assume to represent the fruits of 30 million labor-years (plus, of course, the corresponding quantity of uses of land), which during prior economic years have been invested in intermediate products. Let us examine the structure of this stock of capital more closely.
>
> Every capital is by nature composed of a mass of intermediate products, all of which have as their common goal, to mature into means of enjoyment, that is to say, into consumption goods. They reach that goal through a continuation of the production process in the course of which they themselves come into existence. They are all, as it were en route to the destination of maturity for consumption. But the roads that lead them there will vary. That is in part due to the circumstance that different areas of production have circuitous paths of production which vary in length. Mining or railroad building goes a far more circuitous road than wood carving. But it is also due in part to the fact that the goods which comprise at a given moment the total amount of the community's capital are located at very different points along the respective production roads. Some intermediate products have just set out upon a very long roundabout path such as, for instance, a boring machine that is destined

to dig a mine shaft. Others are midway to the goal and still others are close to the terminus of the "long trail" of producton they must cover, such as bolts of cloth which are about to be made up into suits and overcoats. The inventory of capital constitutes, so to speak, a cross section of the many processes of production which are of varying length and which began at different times. It therefore cuts across them at very widely differing stages of development. We might compare it to the census which is a cross section through the paths of human life and which encounters and which arrests the individual members of society at widely varying ages and stages.

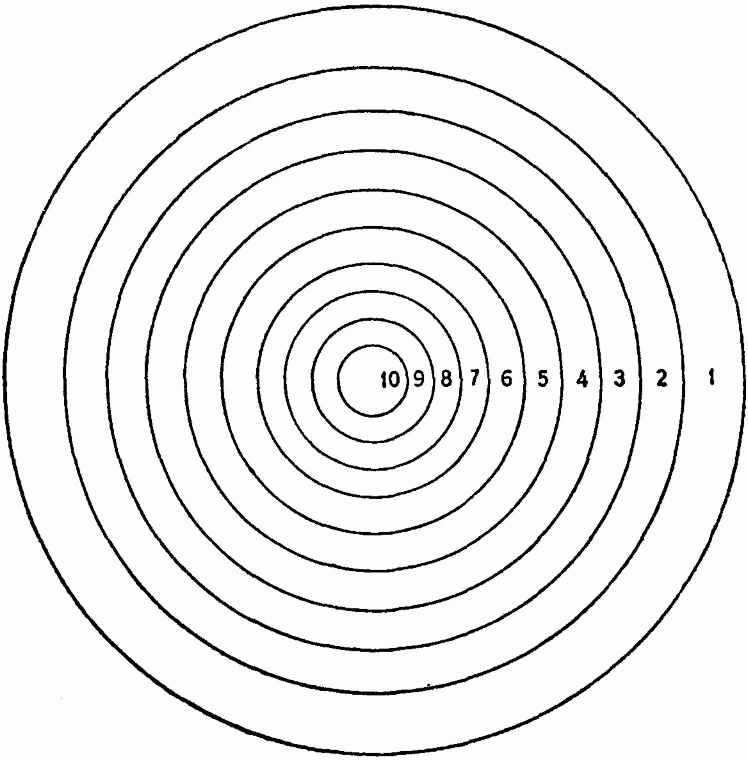

FIGURE 1.

With respect to the varying remoteness from readiness for consumption, the composite mass of capital adapts itself to a highly appropriate scheme of presentation as a number of concentric annual rings each representing a yearly class, or what might be termed a "maturity class." The outermost annual ring *(see Fig. 1)* embraces those parts of the capital which will become finished consumption goods within the following year, the second outermost ring represents the capitals which will mature into consumption goods in the second year and so on. In a community where capitalist production is not yet strongly developed, the inner rings will shrink in rapidly progressive proportion *(see Fig. 2)*. This is because in such a community lengthly circuitous processes of production, which come to fruition only after a period of many years, are rarely and sparingly adopted. In rich and well-developed economies, on the other hand, a considerable number of well-developed circles can be distinguished, and of these the inner rings will have an area or content that is relatively smaller, to be sure, but by no means inconsiderable.

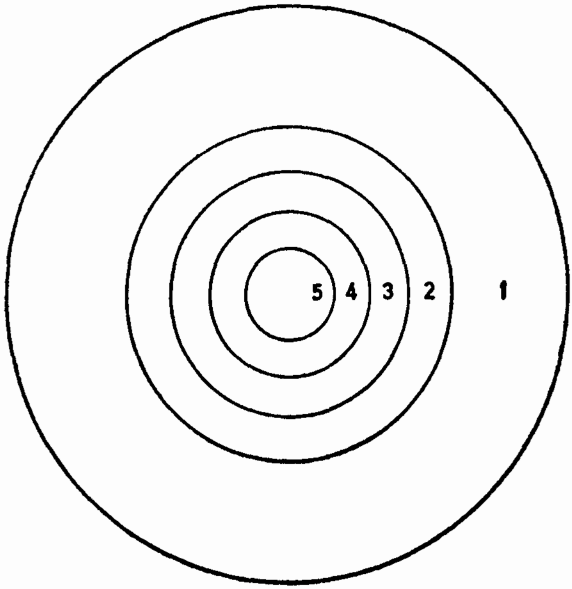

FIGURE 2.

Representation of the maturity classes by concentric circles is particularly appropriate because that picture provides a felicitous method of helping us to visualize the relative magnitudes of those classes. The outermost of the concentric rings has the greatest area, and the areas of the succeeding rings diminish gradually. In exactly the same way the greatest proportion of the total capital of a community will at all times consist of the first maturity class, the goods that are at a point in the production process closest to completion. Similarly, the increasingly remote maturity classes will represent a progressively diminishing proportion of the community's capital. There are two reasons for this. The first is that in the various areas of production roundabout methods of production are adopted which vary in length by reason of their varying technical nature. In some, the entire production process from the initial preparatory operations to the production of the final product ready for consumption, is completed within the course of a single year. In others, two, three or five years are required; in only a few do production periods measure 10, 20, and 30 years. As a result, the highest maturity classes (those most remote from maturity) draw their membership from only a few areas of production. Intermediate products in a stage, let us say, that assigns them to the tenth maturity class can come only from areas of production where the production period lasts at least 10 years. The lower maturity classes *do* draw their membership from these last-mentioned areas of production (since the intermediate products must pass successively through the classes closer to maturation); but they also draw from the areas of production where the duration of the production period is shorter. Thus the quantity of intermediate products becomes greater as progress is made toward the first maturity class. In that class every area of production, without exception, is represented. But a second circumstance works in the same direction. The maturation of intermediate products into consumption goods necessitates a constant addition of current productive forces. At each stage of the production process new labor is added to the intermediate products handed on from the preceding stage and they are then in turn delivered over to the succeeding stage. At one stage, the intermediate product wool is transformed by the addition of labor into yarn; in a later stage labor is again added to transform it into the intermediate product cloth, and so on. The natural consequence is that within each production area the amount of capital invested increases with every forward step to a succeeding stage of production, that is to say, with every forward step to a lower maturity class. For that reason the lower maturity classes do not only comprise representatives from more numerous areas of production, as set forth in the preceding paragraph, but the membership has fattened on relatively larger amounts of capital. That makes the lower classes exceed the upper classes in two respects — their membership is more numerous and also more weighty, with the first class taking complete precedence.

Let us now set down in figures these relations which are present in our example. In order to make the situation easier to grasp at a glance I shall assume that the total amount of capital in our community is composed of only 10 annual rings. If that total capital embodies labor-years in the amount of 30 millions (again ignoring the invested uses of land, for the sake of simplicity) then we can assume some such distribution of the maturity classes as follows:

Maturity Class No.	Contains intermediate products embodying labor years to the number of
1	6 million
2	5 "
3	4 "
4	3.5 "
5	3 "
6	2.5 "
7	2 "
8	1.7 "
9	1.3 "
10	1 "

Each year, in the normal course of events, the outermost annual ring is completely severed from the total amount of capital, and is converted into consumption goods which serve to satisfy the wants of the community. Each of the inner rings receives the addition of new labor, and this both advances it one stage in the production process, and also increases its mass; as a result each ring advances to the next succeeding maturity class. Thus the first class becomes consumption goods, the second becomes the first class, the third becomes the second, and so on.

Mises On The Significance Of Capital

In October 1952, Professor Ludwig von Mises gave an address at the University Club of Milwaukee which he entitled *Capital Supply and American Prosperity.* His theme is fundamental: *Prosperity is dependent on the supply of real capital.* Governments do not create prosperity; unions do not create prosperity; social security does not create prosperity. Adam, the first man, was not poor because a government did not help him, nor because he was not a member of a union, nor because he had no social security; *he was poor because he had no real capital.*

Mises began his speech as follows:

> One of the amazing phenomena of the present election campaign is the way in which speakers and writers refer to the state of business and to the economic condition of the nation. They praise the Administration for the prosperity and for the high standard of living of the average citizen. "You never had it so good" they say, and "Don't let them take it away." It is implied that the increase in the quantity and the improvement in the quality of products available for consumption are achievements of a paternal government. The incomes of the individual citizens are viewed as handouts graciously bestowed upon them by a benevolent bureaucracy. The American Government is considered as better than that of Italy or of India because it passes into the hands of the citizens more and better products than they do.
>
> It is hardly possible to misrepresent in a more thorough way the fundamental facts of economics. The average standard of living is in this country higher than in any other country of the world not because the American statesmen and politicians are superior to the foreign statesmen and politicians, but because the per-head quota of capital invested is in America higher than in other

countries. Average output per man-hour is in this country higher than in other countries, whether England or India, because the American plants are equipped with more efficient tools and machines. Capital is more plentiful in America than it is in other countries because up to now the institutions and laws of the United States put fewer obstacles in the way of big-scale capital accumulation than those foreign countries did.

It is not true that the economic backwardness of foreign countries is to be imputed to technological ignorance on the part of their peoples. Modern technology is by and large no esoteric doctrine. It is taught at many technological universities in this country as well as abroad. It is described in many excellent textbooks and articles of scientific magazines. Hundreds of aliens are every year graduated from American technological institutes. There are in every part of the earth many experts perfectly conversant with the most recent developments of industrial technique. It is not a lack of the "know how" that prevents foreign countries from fully adopting American methods of manufacturing, but the insufficiency of capital available.

* * *

As it was forty years ago, the world is divided into two camps. There is, on the one hand, the capitalist orbit, considerably shrunk when compared with its size in 1914. It includes today the United States and Canada and some of the small nations of Western Europe. The much greater part of the earth's population lives in countries strictly rejecting the methods of private property, initiative and enterprise. These countries are either stagnating or faced with a progressive deterioration of their economic conditions.

Let us illustrate this difference by contrasting as typical of each of the two groups conditions in this country and those in India.

In the United States capitalist big business almost every year supplies the masses with some novelties; either improved articles to replace similar articles used long since or things which had been altogether unknown before. The latter — as for instance, television sets or nylon hosiery — are commonly called luxuries as people previously lived rather contented and happy without them. The average common man enjoys a standard of living which, only fifty years ago, his parents or grandparents would have considered as fabulous. His home is equipped with gadgets and facilities which the well-to-do of earlier ages would have envied. His wife and his daughters dress elegantly and apply cosmetics. His children, well fed and cared for, have the benefit of a high school education, many also of a college education. If one observes him and his family on their week-end outings, one must admit that he looks prosperous.

* * *

Now let us look at India. Nature has endowed its territory with valuable resources, perhaps more richly than the soil of the United States. On the other hand climatic conditions make it possible for man to subsist on a lighter diet and to do without many things which in the rough winter of the greater part of the United States are indispensable. Nonetheless the masses of India are on the verge of starvation, shabbily dressed, crammed into primitive huts, dirty, illiterate. From year to year things are getting worse. For population figures are increasing while the total amount of capital invested does not increase or, even more likely, decreases. At any rate, there is a progressive drop in the per-head quota of capital invested.

In the middle of the eighteenth century conditions in England were hardly more propitious than they are today in India. The traditional system of production was not fit to provide for the needs of an increasing population. The number of people for whom there was no room left in the rigid system of paternalism and government tutelage of business grew rapidly. Although at that time England's population was not much more than 15 per cent of what it is today, there were several millions of destitute poor. Neither the ruling aristocracy nor these paupers themselves had any idea about what could be done to improve the material conditions of the masses.

The great change that within a few decades made England the world's wealthiest and most powerful nation was prepared for by a small group of philosophers and economists. They demolished entirely the pseudo-philosophy that hitherto had been instrumental in shaping the economic policies of the nations. They exploded the old fables: that it is unfair and unjust to outdo a competitor by producing better and cheaper goods; that it is iniquitous to deviate from traditional methods of production; that labor-saving machines bring about unemployment and are therefore an evil; that it is one of the tasks of civil government to prevent efficient businessmen from getting rich and to protect the less efficient against the competition of the more efficient; that to restrict the freedom and the initiative of entrepreneurs by government compulsion or by coercion on the part of other powers is an appropriate means to promote a nation's well-being. In short: these authors expounded the doctrine of free trade and laissez faire. They paved the way for a policy that no longer obstructed the businessmen's effort to improve and to expand his operations.

* * *

Let us look again at India. India lacks capital because it never adopted the pro-capitalist philosophy of the West and therefore did not remove the traditional institutional obstacles to free enterprise and big-scale capital accumulation. Capitalism came to India as an alien imported ideology that never took root in the minds of the people. Foreign, mostly British, capital built railroads and factories. The natives looked askance not only upon the activities of the alien capitalists but no less upon those of their countrymen who cooperated in the capitalist ventures. Today the situation is this: Thanks to new methods of therapeutics, developed by the capitalist nations and imported to India by the British, the average length of life has been prolonged and the population is rapidly increasing. As the foreign capitalists have either already been virtually expropriated or have to face expropriation in the near future, there can no longer be any question of new investment of foreign capital. On the other hand the accumulation of domestic capital is prevented by the manifest hostility of the government apparatus and the ruling party.

The Indian Government talks a lot about industrialization. But what it really has in mind is nationalization of already existing privately owned industries. For the sake of argument we may neglect referring to the fact that this will probably result in a progressive decumulation of the capital invested in these industries as was the case in most of the countries that have experimented with nationalization. At any rate nationalization as such does not add anything to the already prevailing extent of investment. Mr. Nehru admits that his Government does not have the capital required for the establishment of new state-owned industries or for the expansion of such industries already existing. Thus, he solemnly declares, that his Government will give to private industries "encouragement in every way." And he explains in what this encouragement will consist: we will promise them, he says, "that we would not touch them for at least ten years, maybe more." He adds: "We do not know when we shall nationalize them." But the businessmen know very well that new investments will be nationalized as soon as they begin to yield returns.

We shall next consider the profound significance of this for social security.

How Evaluate Social Security In The United States?

Having simplified the explanation of what "goes on" in a scheme called old age security, it is now possible to describe what occurs under Social Security in the United States and how to evaluate it. The four possibilities are:

1. That the present system arranges for savings in kind.
2. That it is a charity scheme, with a new name.

3. That it is a contract with a thrifty man, an accumulator of capital, a "funder," who by his accumulation of capital protects the sums paid in, and also increases production; or

4. That it is a contract with a spendthrift, who is not an accumulator of capital and who by not accumulating capital is not "securing" his promises by real collateral. Under this fourth category there are two sub-possibilities:

(a) The debtor will be unable to pay social security, and will default simply because he has no assets; or,
(b) The debtor may meet his obligations by extorting payments from new arrivals on the scene (young people). These may be lulled into confidence that all is well, by the promise that 45 years hence they will then be the fortunate recipients.

The unfeasibility of *savings in kind* for the benefit of future pensioners has already been made apparent, although by its farm program the United States is accumulating surpluses of foodstuffs (a "savings in kind"). However, the accumulation is unrelated to social security as such. *Savings in kind* can be removed from serious consideration.

Secondly, social security in the United States has some charity aspects, which we shall present at some other time. But United States social security is not intended to be a charity scheme. The beneficiaries are supposed (in the aggregate) to take out no more (in the aggregate) than they put in. Actuaries have made computations to show how input and output balance, or can be made to balance.

The system therefore must be a contract, and the contract is either with a thrifty trustee or with a spendthrift. The trustee in this case is the Government of the United States. Is it, as trustee, thrifty or spendthrifty? Is the government of the United States a Mr. Vestor? or is it a Mr. Promise?

Everybody knows the answer: the United States is a Mr. Promise, spending not only its whole income, but, in the post war years, on the average, spending more than its intake. Some of the expenditures of the United States eventually go into capital assets of a sort, such as housing projects or a Tennessee Valley Authority. But that is only a part of the total. It is not feasible to consider here how much or how little of government funds go into *real* assets, and how much of this is *capital* and how much is not. But the percentage that is not capital, and most of it is not, indicates that to that extent social security is not *really* funded.

What is the United States putting into the vaults to protect its Old Age pension hopefuls? Pieces of paper. These sound important because they are called *bonds*. But that name does not make them more than pieces of paper. *Real* prosperity will *never* be based on such pieces of paper.

Promise, when collecting money from Mortal, could do the same thing, and in order to keep the bookkeeping straight would surely do so. Upon receipt of every payment made by Mortal, Promise would do two things: (1) spend the money; and (2) slip into the vault in its stead his promissory note: "Forty years from now I promise to pay to Mortal a sum of .... dollars with interest at .... percent, for value received." But Mortal, if alert, would realize that that promissory note is probably worthless. What is the promissory note of any spendthrift worth? When private persons are involved in a situation of this kind, the solution is bankruptcy of the debtor, and a default in payment.

But that is not what will happen in this case. There need be no fear that the United States government will default. It will certainly pay in one of two ways: (1) it will slip in more and more new bonds by running the printing presses; (a private individual may not do that); or (2) it will increase taxes on the workers (the younger people). The oldsters will undoubtedly get their pension money. Peter will be robbed to pay Paul.

And so it is approximately correct what the international banker said, whom we have quoted earlier in this issue, to wit: *There is nothing behind social security in the United States than the future taxing power of the government.*

It seems that *power* — the power of the government to tax — can make a bad contract a good one; that is, admitting that it would be bad for an individual (as Promise) to act as the United States government is acting, those bad consequences can be and are annulled when the United States government can exercise its *power*. But this is a hallucination.

100 Percent Social Security (A Spurious Seventh Heaven)

If social security, as operating in the United States is an admirable scheme, why not extend it? No, not extend it by 10% or 50% or 100% above what it is now — but extend it so that *it constitutes the whole savings scheme of the American people for their old age.*

Further, let us assume the government will continue to spend what it takes in, probably for all kinds of enlarged welfare schemes *involving current consumption.*

Would such a system not be a seventh heaven of old age happiness — protected as it would be by billions on billions of government bonds — pieces of paper? No, because, unfortunately, *no real capital* would then be provided for any more.

Where would the United States be, after say 50 years of such complete and perfect social security? It would approximate the conditions today in India. Consider again what we quoted from the Mises speech.

Pieces of paper in the form of bonds may assist in *redistributing* income but it does not help in *producing* income. Under 100% social security the redistribution would be perfect and might endlessly increase in dollars, but *real income* would go down and down until people had reached bare existence levels when the death rate would go up.

In other words, *the more social security of the present kind* that we have in the United States, the lower the real income of *the people of the United States will be.* Further, the less social security we have in the United States under the present plan, the higher the real income of the people of the United States will be. Basically, our so-called social security is a hoax, and will be from a *social viewpoint* until the United States government, as trustee, invests the social security payments in *real* capital.

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