FIRST PRINCIPLES
IN MORALITY AND ECONOMICS
on which depend personal well-being and social health and harmony
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Inflationism Designed To Help The Poor Really Helps The Rich

The late J. Laurence Laughlin, at one time professor at the University of Chicago, wrote a book *The Principles of Money* (Charles Scribner's Sons, New York, 1921) which is of considerable interest as monetary history. On pages 43-4 he asked:

But who compose the debtor class?

To that question his answer was:

> Large capitalists . . . have . . . obligations . . . in excess of their . . . capital. Merchants are constantly doing business . . . far beyond their own capital. They borrow . . . and create the greater proportion of general indebtedness. The largest part of the obligations of a country, so far as amounts are concerned, necessarily arises from those who engage in the more extensive transactions. . . . A poor man may be in debt, but the total [debts] of the poorer class is but a fraction of the obligations of a few large institutions, and legislation giving preference to debtors will serve the poor man infinitely less than it does the large producer.

Many of the people of the United States today favor inflationary policies: (1) they have abandoned the gold standard, whereas it is only by having an inert metal standard that inflation of prices can be prevented; (2) they have legislated to authorize *circulation credit,* which raises prices; (3) they are, in general, complacent or semi-complacent about increases in government debts; and (4) they think that by inflation they are filching the rich and helping themselves.

But in regard to number (4), as Laughlin indicates, they are deceiving themselves, and doing just the opposite of what they intend; they are indeed following policies contrary to purpose. In the process, presumably of helping themselves (and hurting others), they are really hurting themselves.

Inflationism is basically wrong because it is theft. It is not justified for the purpose of enriching the poor (which means injuring the rich); nor is it justified for the purpose of further enriching the rich (which means injuring the poor). Inflationism is *always* wrong.

The poor man usually saves in the form of insurance, savings accounts, purchases of bonds or of mortgages. Where does all this money go? To finance the big *debtors.* The *poor* man, through these institutions of insurance etc., becomes a creditor. Big corporations are almost always big debtors. A few, large modern corporations have no debts and apparently pride themselves in

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that. Their pride is misplaced. The managements of these companies are "living in the past."

Latterly, as a semi-conscious defense against inflationism, many poor people (usually *young,* because the young are naturally poor, not having had time to accumulate capital) have taken to buying a residence for themselves *on time,* rather than renting. This is significant, but is relatively not yet of great importance in the general situation. Big corporations are pursuing the same policy even more strongly; they are steadily doing more and more of their financing *by means of borrowing,* rather than by stock financing, which is known as "equity financing." There are limits beyond which a corporation should not borrow. Many corporations are pressing against those limits.

The *tax* laws of the United States also encourage corporations to borrow rather than to seek money from stockholders. If a corporation finances by means of 5% preferred stock, it must earn more than 10% on that money in order to benefit the stockholders by this expansion. The reason is that the Federal Corporation Income tax rate is 52%. But a 5% debenture or bond (that is, borrowed money) is profitable to stockholders whenever the use of such funds yields to the corporation more than the 5%.

Two Public Evils In The United States — Bad Laws Governing Unions And Banks

Two of the bigger evils in the United States today are: (1) unions, as they operate; and (2) banks, as they operate; or better said, two of the bigger evils in the United States are the laws giving unions and banks special privileges.

Bad laws permit union members to do what an ordinary private individual would be sued for doing or for which he could be thrown into jail. This is aggravated by a lax enforcement of laws in those cases where the law still protects partially against unionism. The consequence is that unionism is rife with gangsterism, of a mild or virulent type. Unionism itself does not make men bad; it is the bad laws giving special privileges to unions which make bad men of union leaders and members.

The bad bank situation is equally because of bad laws, which permit banks to put out *circulation credit,* that is, a "counterfeit" credit, up to five times the amount of gold reserves which the bank

has deposited with its Federal Reserve Bank. The law authorizes bankers to manufacture "money." Exactly as in the case of the unions, the trouble is not the absence of "law," but the existence of a law permitting a "special privilege."

We do not need any new laws prohibiting union violence. All that we need to do is to rescind laws which in actual practice permit union violence. Similarly, we do not need a law to prohibit banks from putting out circulation credit. All that we need to do is to rescind the law which permits banks to do that. Repeal the present bad laws! Do not pile law on law!

There are certain *elementary* laws for society. Two of these are (1) the law against violence and (2) the law against theft. The laws pertaining to unions are bad because they do not prohibit union violence, but grant opportunities for violence to be perpetrated with impunity. The banking laws are bad because they do not prohibit banks from perpetrating theft in the form of circulation credit, but deliberately authorize it.

The laws on unions violate the Sixth Commandment, Thou shalt not coerce (kill).

The laws on banking violate the Eighth Commandment, Thou shalt not steal.

A return in *public* law to the elementary Ten Commandments will greatly benefit society.

Menger On "The Nature And Origin Of Money"

Carl Menger (1840-1921), the Austrian economist, was the fountainhead of that great "revolution" in economics which resulted from the formulation of the proposition that *value* does not ultimately derive from the factor of supply but from the factor of demand. *Costs* (a supply factor) do not in an originary sense determine value, but *utility* (a demand factor) does.

The old slogan that price is determined by "supply and demand" only finally obtained real meaning when Menger and his associates (and others) developed the idea of *marginal utility.* In his book *Principles of Economics* (The Free Press, Glencoe, Illinois, 1950), in Chapter VIII on "The Theory of Money," Menger presents his simple and convincing explanation of the origin of money. (Menger's writings generally have the characteristics of simplicity and cogency.)

He begins by referring to the discovery, by people, of the ad-

vantages of division of labor. But division of labor entailed exchange of the product which each specialist produced. The first exchanges, he notes, must have been barter, and were based on *use value*. He wrote:

> . . . economizing individuals have goods in their possession that have a smaller use value to them than goods in the possession of other economizing individuals who value the same goods in reverse fashion.

He cites the case of *A* having a sword of smaller use value to himself than a plough owned by *B*, but that for *B* the use value of the sword is greater than of the plough he owns — and so an exchange can and will be made (page 258).

Menger then expands on the idea that although *A* wishes to exchange his sword for something else, that *B* usually does not have exactly what *A* wants. The consequence is that no deal can be made.

The next step then, according to Menger, is that each man, who wishes to exchange whatever he has in surplus or no longer needs but who cannot by barter get specifically what he wants, will attempt to make a trade to get something that has *greater marketability than his own commodity.* A sword or a copper armour may be less marketable or less exchangeable than a cow or cattle. And so a man might *as his first move* sell his sword or armour for one or more head of cattle even though he has no direct use for the cattle. Then he might exchange his cattle for something still more in general demand, and consequently still more exchangeable. Menger wrote (his italics):

> As each economizing individual becomes increasingly more aware of his economic interest, he is led by this *interest, without any agreement, without legislative compulsion, and even without regard to the public interest,* to give his commodities in exchange for other, more saleable, commodities, even if he does not need them for any immediate consumption purpose. With economic progress, therefore, we can everywhere observe the phenomenon of a certain number of goods, especially those that are most easily saleable at a given time and place, becoming, under the powerful influence of *custom,* acceptable to everyone in trade, and thus capable of being given in exchange for any other commodity. [Page 260.]

Money, therefore, *does not find its origin in legislation,* but in what Menger calls *custom.* The everyday decisions of ordinary men make money to be money, and not the stamp of a government. The German Weimar Republic, which was socialistic in character, stamped pieces of paper as being of 1 mark, 10 marks, 100 marks,

1000 marks, or more, but such paper became worthless. A government can neither create nor sustain the value of the money within its borders *by legislation or decree*. The decisions of individual citizens determine the value of money.

Finally, the commodity which was found to be "more exchangeable" than all others was gold. That is why gold is the foundation of the monies in the world, whether or not a particular government recognizes that.

The reason why gold is "most exchangeable" is because it has the characteristics of "portability, indestructibility, homogeneity, divisibility and cognizability" as Laughlin wrote (page 41), but far more importantly, (1) because it possesses the quality of *not being manufacturable or augmentable (greatly) in supply*, and (2) because it already had and retains a value independent of its utility for monetary purposes; (gold always will retain some value in the arts and for decorative purposes).

The worst kind of money is money supposedly "sustained" by, or even influenced by, a legislature, or the director of a central bank, or a dictator. For something to be money requires that it be beyond the arts of an alchemist with chemicals and mystic rites, and beyond the arts of a monetary expert of any kind or calibre, who has a printing press, or its equivalent, at his disposal.

Roscher, On False Theories Of Money

Schumpeter in his book, *History of Economic Analysis* (Oxford University Press, New York, 1954) wrote (on page 699):

> Roscher expressed dominant opinion when he said that the false theories of money may be divided into two groups: those that hold that money is more, and those that hold that money is less, than the most salable commodity.

Money, in a *general* sense, is simply that which is the *most exchangeable item*. There are, it should be noted, various kinds of money. The problem pertains partly to variations in the total quantity of money, and partly to the fact that there are different kinds.

A Note On Menger And The Other Austrians, As The Best Primary Source Of Economic Information

As admirable an *introduction* to economics of any treatise known to us is Menger's *Principles of Economics*. That is pref-

erable compared to beginning by reading the classic writings of Adam Smith or David Ricardo. The major conclusions of these men have been so drastically revised by the work of the Austrians (Menger, Böhm-Bawerk, Wieser, Mises) that it is confusing, and also a serious error in method — wholly anachronistic — to begin with the outdated English classicists. After a reader has gained a sound base from the Austrians, then the works of the old English classicists, which deserve imperishable renown, can be read with great profit — but they will then be read discriminatingly. As Böhm-Bawerk wrote:

> The most important and most famous doctrines of the classical economists are either no longer tenable at all, or are tenable only after essential alterations and additions. [From his article on "The Austrian Economists" in the *Annals of the American Academy of Political and Social Science*, January 1891.]

* * *

This applies to the difficult subject of money, too. Even Menger, as late as 1892 wrote:

> The enigmatic phenomenon of money is even at this day without an explanation that satisfies; nor is there yet agreement on the most fundamental questions of its nature and functions. Even at this day we have no satisfactory theory of money. [Quoted by Laughlin, page 225.]

Menger is comparatively recent in economic history. But "much water has gone under the bridge" even since Menger's time, and there is today a "satisfactory money theory." But the trouble is that people do not like it, because that satisfactory theory is based on the premise that theft is wrong.

To rely on the old economists in regard to money matters is like relying on a Galileo in the age of an Einstein.

The Profit Problem Of Banks

In the previous issue a simplified illustration was employed to show that there are problems to be solved before a bank can make a profit. The contribution which the privilege of putting out *circulation credit* together with the exercise of the privilege can make to profits was also demonstrated in a schematic way. Then it was proposed that a law (patterned on the famous British law on banking, officially known as the Bank Charter Act of 1844, but also known by the name of the British Prime Minister who put it through, as Peel's Bank Act) be passed which would prohibit the banks in the United States from putting out any *additional* circulation credit.

That proposal might be opposed on the ground that there will be a serious consequence in the form of a loss of legitimate bank profits. Will the banks be injured seriously or dangerously by losing their privilege to issue circulation credit? Or will the banking industry easily and quickly adjust?

Fortunately, the banking business in this country is genuinely competitive. A bank managed with average efficiency will earn an average return on its net worth; if managed with less than average efficiency, the return on net worth will be less than average and may disappear entirely; and vice versa, unusual efficiency will result in extraordinary profits.

If the banking business on the average were more profitable than other businesses, that fact would quickly be noted by shrewd men, and they would enter the banking business in order to participate. But before long there would be so many in the banking business that the profits would decline to the average for all industries (or temporarily maybe even to less than average).

Banks in the United States possess a special privilege, which in the preceding issue we called the *Five Times Principle,* and which consists in being permitted to loan about *five* times as much as the bank has reserves of gold on deposit with its regional Federal Reserve Bank. This privilege gives the banks a special opportunity for profit. That was shown by assuming a bank would be organized with $100,000 of capital, of which $80,000 would be put into gold. The bank could loan as much as $400,000 on that gold reserve of $80,000. With an interest rate of 5% the gross income of the bank on the $400,000 would be $20,000. This gross income relative to the $100,000 of capital is attractive; it is 20% of the principal.

However, this special source of profit — from issuing circulation credit — has long ago been distributed or "dissipated" to others by the banks in various ways, and it is a misconception to think that bank stockholders obtain *in total* a better than average return on their investment.

The ultimate *origin* of the special source of profit for the banks (i.e., to issue circulation credit) is the banking law of the land. Nobody other than bankers may put out five times as much credit — which credit gives purchasing power, and which is equiv-

alent to money — as they have gold reserves. A banker obtains this privilege at a heavy price, namely, he must submit to detailed government regulation. In fact, as an individual, no one is permitted to own gold; the law of the land provides a heavy penalty for violation of that prohibition.

Although banks have a special privilege (in principle, privileges granted by law are suspect and almost always bad), they are not able to continue to "cash in" on that. The reason for this is that there is free entry into the banking business, provided one abides by the rules and regulations laid down by the government. In order to take advantage of the special privileges, *so many people have gone into the banking business that the special advantages have been transferred to customers.*

Mr. *A*, who hitherto may not have been a banker, may observe that Mr. *B*, who is already a banker, is very prosperous. *A* may then enter the banking business, too. Both may continue to be prosperous. Then *C* and *D* may enter the banking business, but let us assume that the community did not need four banks. *C* and *D* then do not prosper as bankers. The bulk of the banking business may be retained by *B* and *A*. The interest rate in the community has been in the past, let us say, 5% on commercial loans. In order to get more business, *C* and *D* may reduce the interest rate to 4%. That reduction in the rate will reduce the gross income from loans by one-fifth, or 20%. The cream is now "off" the business. If *C* and *D* continue dissatisfied with their share of the business, they may even drop their interest rate to 3%. A 3% rate means a 40% reduction in gross income from the 5% originally prevailing. Customers will leave the banks of *A* and of *B*, unless they also reduce their rate to 3%. Competition will continue to operate so that the *special advantages* derived from the privilege of issuing circulation credit, given by the government, *will be diffused to the customers of the bank* in the form of lower interest rates than would otherwise prevail. Eventually, the owners of the bank will retain not the slightest residue of special advantage from their special privilege. Their customers will reap the full harvest, and competition will have done it. (The foregoing pertains to a temporary situation in which competitive banks are trying to take business from each other. The eventual interest rate depends on other factors.)

If it is now proposed to take away from the banks the special privilege which in itself was originally profitable, the banks will *temporarily* earn a less than average rate of return on their investment. If they have charged customers too little for the various other services they perform (because they had been making an extra profit on their Five Times Principle), then they will be obliged, when their special privilege is taken away from them, to increase their charges for those other services that they perform, and put them where they belong.

Bankers will probably be disposed to fight for retention of their Five Times Principle, because it is natural for people to wish to retain what they possess. But bankers do not really need the Five Times Principle in order to be prosperous.

Six Different Approaches To The Problem Of Money

The "money problem" ought to be approached as a *money problem only,* and not as something that should be decided, or even be influenced, by any secondary or collateral interest. The money problem should never be determined on some basis such as efficiency, national interest, full employment or price stability. To inject these other factors into the attempted solution results in a genuine degeneration of the solution, whatever it may be.

The following disturbing, non-germane considerations have bedeviled the pure money problem:

Considerations of:	The Special Interest Involved
1. Profitability	"Efficiency" in the use of money, to enhance the profitableness of the *banks,* and to lower the overall cost of money for society.
2. Liquidity	The needs and wishes of *depositors* to have access to their money *on demand.*
3. International Exchange	Control of the inflow and outflow of gold and of goods, for *national* reasons.
4. Full Employment	The apprehension of *employes,* and the *mass of people* in a country, about unemployment.

5. Price Stability	The wishes of *politicians, bureaucrats, business men and others* that prices do not decline.

Finally, there is an unadulterated, single interest which will be called

6. The Pure money problem,	which has one and only one consideration in mind, namely, honesty in the medium of exchange, or Thou shalt not steal. This consideration is not special nor for any class, but is for *all men.*

Problems of money, as has been noted before, are as difficult as any in economics, or, as some would say, as any problem in matters of human action or human behavior. The most unsettled economic controversies among experts, and the most serious anxieties among the mass of mankind, pertain to questions of money. The problem must seem to nearly all to be intolerably complex and to be something that we have to live with, without being able to understand it.

To endeavor to simplify the money problem it is proposed that purposes, class goals and all considerations *except honesty* be removed from it. Modern society "lives" by exchange. Money is used in modern society in nearly every exchange. The media for exchange is money of some sort. If money is not "honest" almost no single transaction between men can be honest, because if the media has been corrupted then there will be a taint to the transaction itself, despite honest intentions of the participants.

It is planned to strip away the considerations which have caused the wrong solutions to be found to the money problem.

The sequence that will be followed in this endeavor is:

1. The harmful effects of letting the ideal of "efficiency" of money unduly influence the attempted solution of the money problem;

2. The unsettling and morale-destroying consequences of tampering with the money situation, by deceiving ourselves that we have money available on demand which is not really available on demand. In regard to money, we want it to be both "fish and fowl" at the same time; to be *liquid* and to be *earning* at one and

the same time. In this matter, men want to "keep their cake" but "eat it" at the same time.

3. The inevitable injury to society that will result from a specific *so-called* full employment policy. Everybody, without exception, is of course *for* full employment, but reference is here made to what is a *synthetic* full employment policy, which is not to be tolerated if honesty is the criterion.

4. The special and dangerous influence of politicians, bureaucrats and industrialists in favoring certain monetary programs designed to avoid price declines, and tampering with money for that purpose.

5. Next, a nationalistic and sometimes chauvinistic interest, concerning itself about the importation or exportation of gold, and the related problem of the importation or exportation of goods, of national self-sufficiency and national defense, and of the impact on foreign nations of a domestic money policy. The motivation usually has been one of enmity — to hurt the foreigner rather than to help the self.

6. Finally, there is left what is here designated as the *pure problem of money,* and consideration is given to what should be done to attend to that problem as is best possible.

Probably the thought should be expressed that there is no single, *perfect* solution available (at least to the writer's knowledge) for the money problem. But there is certainly a very tolerable solution that can give men peace of mind. That solution is to be *honest* in regard to problems of money.

The five factors mentioned in the foregoing which are intended to be stripped away from the basic problem, thereby to assist in the finding of the most desirable solution, are not completely distinct. They are intermingled in a disconcerting manner.

Consideration will first be given to the "complexifying" effects of letting considerations of *money efficiency* affect the money situation in a dominating manner.

"Efficiency" In The Use Of Money — By A Banker, And By His Defalcating Teller

Maybe excessive attention to the idea of *efficiency* in the use of money has done as much damage to monetary theory and monetary practice as any other factor.

In the example presented in the previous issue (page 234) depositors put $500,000 into your bank, into checking accounts.

You discovered that some of this money was always "idle," resting in one or another of the depositors' accounts. The arbitrary figure used in the illustration was $300,000.

And what did you as banker do? You said to yourself, "That money is *always* there. It is never removed. It is *idle.* I will put it to work by loaning it to *A* and *B* and *C*, etc."

Your argument was one of "money efficiency." The proposition was that money should not be "idle." Admittedly, you will "profit" from the use of that money; and you justify *your* taking that profit *for yourself* originally (although eventually you cannot retain it), on the ground of efficiency, namely, money ought to be employed to the maximum; this money is not being used; therefore, you will put it to work.

The law of the land has sanctioned that *efficiency argument.* You as a banker are permitted to loan to third parties your depositors' money. There are certain restrictions which are imposed upon you to reduce the hazard of the operation, but the privilege exists and is assiduously exercised by bankers.

Suppose that you have a big bank and many tellers. Suppose one of your tellers discovers that the account of a certain depositor always carries large balances, but that the owner apparently does not check his exact balance situation except at long intervals and maybe almost never. He probably has, for many years, found the bank to be more correct than his own additions and subtractions on his checkbook stubs. And so your teller takes out $10,000 of unused funds.

If you as owner of the bank may use — loan out — unused funds of depositors, why should not this poor teller put $10,000 to work to buy a house for himself? Suppose he does buy a house, and uses the defalcated $10,000 for the downpayment, and suppose that he has a firm intention to repay. He may say to himself: "I will work and save and pay off $2,000 a year. My relatives will contribute several thousand dollars to the house. I will eventually repay the whole sum. I am only temporarily using *unused money.*"

But if the bank's own auditor or if the public bank examiner

discovers what has happened, the poor teller will go to jail for having tried to be *efficient* in the use of money.

There is something wrong with any law that says a banker may loan unused funds but that his teller may not. Of course, the two cases are not exactly parallel, but the principle of using unused depositors' funds is parallel.

The Conflict Between Efficiency In The Use Of Money And The Demand For Money

The term, *demand for money,* has been defined previously (page 178, Volume V, Number 6), but the term continues to be elusive to most people and to have several meanings. Two common meanings should be contrasted.

The real *demand for money* does not consist in the demand to have money for the transaction of regular purchases. If *that* meaning is accepted, then demand for money is merely a disguised and indirect demand for goods. Your demand is not a demand *for money,* but for the things you wish to buy and consume or in which you wish to invest.

The *real* demand for money consists in the demand you have for a *store of money,* or a *stock* of money on which you can rely in emergencies, and which you need in order not to be embarrassed financially in your regular transactions. Your demand for money is evidenced by the money that you carefully *keep on hand* in one form or another, maybe in the form of cash in pocket, or amounts in checking accounts.

There is a "conflict" between (1) this latter concept of *demand for money,* which is the true concept and (2) the idea of *efficiency in the use of money in the form of loaning unused checking balances to borrowers.* What real sense can there be in your having a protective stock of money in a checking account at your bank (which evidences your *demand for money*), and which is really your stock or your *reserve* that your judgment tells you that you need, but your banker proceeds to loan what you consider to be necessary cash for yourself to a borrower who will not be able to repay, say, in less than 60 or 90 days, or a half year, or a year, or even longer?

The banker may be "efficient" in using your "idle" funds in his bank, but *he has genuinely undermined your cash position.* His

hope is that if you suddenly demand your money somebody else will put in a comparable amount.

The phenomenon, *demand for money,* really does not tolerate a banker loaning out any part of the funds of depositors *on time.* The reason is that the depositors understand that they can get their deposit money *on demand,* but their banker has loaned out the money *on time.* There is here an innate contradiction.

How The Zeal For Efficiency In The Use Of Money Manifests Itself In The Way That The Seasonal Demand For Money Is Taken Care Of

The demand for money (in the economic sense, as defined) varies not only by persons but also for the same person. He will deliberately increase his money on hand to anticipate extra needs, and reduce his money on hand when he anticipates less-than-usual needs. These variations do not all offset each other, and so there is a variable *seasonal* demand for money. It is higher at the ends of months, than between month ends; it is even higher at quarterly dates. It is exceptionally high at year ends.

One way to take care of the high seasonal demand for money is for a merchant to carry the whole year long a balance in his checking account big enough for his maximum demand for money in the fall, or whenever his maximum demand will occur. But that means a kind of "inefficiency." He will have "idle" funds for a large part of the year. To have "idle" funds means to suffer the loss of interest that might be earned on those funds. Business considers itself too competitive to tolerate that waste or "inefficiency." Businesses, therefore, have often become accustomed to having a *demand for money* in the economic sense which is no more than their demand in their lowest season. What they need above that in their busy seasons they obtain by borrowing for short periods, maybe only a few months, from the banks. Bank loans regularly increase in the fall, because of that phenomenon. The *loan money* market (*ceteris paribus*) always tightens up beginning in September and continues into January.

How do the banks meet the situation? Elaborate financial machinery has been developed to enable the banks to make greater loans *seasonally.* The reason for this elaborate organization is "efficiency" or "economy" in the use of money.

It is in times especially of high seasonal demands for loan money that what we have called the *Five Times Principle* comes into play in order to provide funds. Furthermore, the Federal Reserve Banking system in the United States is especially designed to take care of the seasonal needs of business. A prime device, ordinarily not easily understood, in such situations is for the Reserve Banks to increase their holding of government bonds by purchases. They pay out money for the bonds to commercial banks and their customers and that money takes care of the seasonal needs of business. When the seasonal needs for money of business are diminished then the Reserve Banks re-sell the bonds and receive back the extra money which they had pumped into the money supply. The details of this are irrelevant at this time.

The fundamental fact is this: the banking system which we have is authorized to manufacture *circulation credit* (see preceding issue, page 243ff.) to take care of peak seasonal needs for money. Then, as the seasonal demand diminishes, this *circulation credit* is or at least can be withdrawn. Temporary money has been temporarily manufactured and temporarily kept in circulation in the interest of "efficiency" in the use of money.

The alternative would have been to have "less efficiency" in the use of money, namely, there would be in seasonally slack periods excess idle funds which would not be earning interest; that would occasion a loss in potential income. Furthermore, because there would be less money, therefore, according to the quantity theory of money (see page 196), prices would generally be lower, if for no other reason, because money was "turning over" less frequently.

Some of the unsound ideas about money have, in a sense, sneaked into the money and banking system, via the plausible idea that there should be no inefficiencies in meeting the seasonal demand for money; that is, the high demand for money should be taken care of by *circulation credit,* or as we have also designated it, "counterfeit" *credit* (see page 254ff).

It is no great jump from the idea of the merit of manufacturing *seasonal* funds for the sake of economy, to the idea of manufacturing *all* funds needed at any time — also for the sake of "economy" or to achieve a hoped-for "efficiency" in the use of money.

The Currency School Versus The Banking School On The Question Of Efficiency In The Use Of Money

It is seductively plausible to consent to being "efficient" in the use of money, in order to meet with ease the rhythmic seasonal variations in business. Clearly, too, although *circulation credit* (which in principle is plain theft) may have been issued to finance seasonal business, but if it is withdrawn when the season is over, then it appears that the harm from the theft has been undone (similar to the case of the teller who defalcated $10,000). Who, however, could really be at ease about either case, if they are in principle the same, which they are.

But with *seasonal* circulation credits as a wedge, it becomes possible to reason in this manner: generally, *circulation credit* will never be issued unless there is a genuine demand for it, just as there is for seasonal *circulation credit;* and as there is from time to time a natural demand for it, will there not also be a natural retirement of it? And so there need be no fear that an "excessive" amount of circulation credit will ever be issued, because if an excess is issued, it will naturally return to the issuer, and so no harm will be done. The proposition, in other words, is this: there is *never* really any *danger* from an *excess* of circulation credit, because it will, if no longer needed, automatically be returned to the issuer for redemption. Consequently, so the argument goes, there is no need to be opposed to circulation credit, because the system under which it is issued is self-corrective. Why, then, all the furore against circulation credit? Is it not obviously a good thing as far as it is needed? It is certainly a low cost, "efficient" way of having the required money supply; and beyond its natural and proper use it will not continue to exist. Such is the "argument" in favor of circulation credit.

That is the basic proposition of the school of thought on money and banking known as the *Banking School* which flourished in the first half of the nineteenth century in Great Britain. The school of thought opposed to that idea is known as the *Currency School.* (The Currency School was successor to the Classical School of Smith and Ricardo.) The Currency School argued, contrarily, that more circulation credit could and would be issued than

was "needed," and that circulation credit should be prohibited, or more accurately, that no *further increase* should be permitted. In so far as circulation credit already existed, the Currency School argued that the best thing to do was to leave that amount undisturbed, because there would be injury from decreasing circulation credit as well as from increasing it, and that the damage had already been done by any increase in the past.

The complex issues between the Banking School and the Currency School are not easy to understand, but for our purposes the issue will be understood if the following ideas of the Banking School are grasped: business needs more and more money as its volume increases; credits will naturally be created to finance such business increases; the quantity of money, in the form of credits, safely responds to the needs of business; if too much in credits is given to finance business, the credit will be paid off and thereby be cancelled. There is no real danger in circulation credit. It is the most "efficient" and "cheapest" way to provide additional money, as business needs it.

The Currency School dissented: it denied that there was a natural limit restricting the amount of circulation credit. It declared there could and would be over-issue of circulation credit, with the consequences of rising prices, boom, strain, export of gold, and depression.

The principal leader of the Banking School was Thomas Tooke. He was supported generally by John Fullerton, James Wilson, Bonamy Price, and (in France) by Courcelle-Seneuil.

The principal leader of the Currency School was Mr. S. Jones Lloyd (Lord Overstone). He was supported by G. W. Norman, Colonel Torrens, and Sir Robert Peel who was mentioned in the previous issue, and who was the British Prime minister who put through the famous Bank Charter Act in 1844. This Act put into effect the ideas of the Currency School, as was related last month.

Professor J. Laurence Laughlin, who, strangely enough, favored the principles of the Banking School more than the Currency School, stated the issues between the two schools as follows (page 264):

> According to the currency school:
>
> 1. Prices rise and fall with the increase or diminution of the amount of the circulation.

> 2. Banks have it in their power to increase at pleasure the quantity of paper money.
>
> 3. The efflux and influx of gold are to be regulated by regulating [the amount of the circulation credit issued by] the banks.
>
> As opposed to these declarations, the banking principle included the ideas that:
>
> 1. Prices do not depend upon the quantity of the circulation.
>
> 2. Banks cannot increase their issues at pleasure; since, if convertible, any excess will be returned for redemption. Banks only follow the attitude of their customers.
>
> 3. Consequently, the issues of the banks need not be regulated according to the price of bullion in the foreign exchanges.

Laughlin then goes on to say:

> Some writers have assumed that the two schools differed principally on the second proposition, and that the controversy pivoted on the question whether convertible paper could be issued to excess. It will be found, I think, that the fundamental differences existed in regard to the first proposition.

There have been many quibblers about the quantity theory of money, and Laughlin appears to have been one of them. Logic and experience both indicate that the quibbling is absurd. The peasants throughout the world know that money — that is, *paper* money, the quantity of which is being increased — is unsafe to keep. In so far as the Banking School was attacking the quantity theory, they were arguing foolishly against the obvious. (Various inexactnesses in the specific formulation of the Quantity Theory do not subvert the theory itself; in economics, too, there are many who "strain at a gnat, but swallow a camel.")

The specific controversy between the Currency and the Banking Schools was (to use Laughlin's expression), "whether convertible paper could be issued to excess." When thus phrased, a simple *yes* or *no* can hardly be given. The reason is that there are really two propositions in the single phrase quoted. The submerged proposition pertains to the word *convertible*. What does *convertible* mean? does it mean absolute capability of conversion? or does it mean that paper money is (partially) convertible as long as there is no alarm about it, or awareness of its increasing quantity? If paper money is always absolutely convertible into gold, then it cannot have been issued to excess. There is then no problem. The question really should be phrased thus: "whether *potentially un-*

convertible paper can be issued to success," because that is in fact what this circulation credit or paper money situation is. The paper money in the United States today and in every country in the world today is NOT convertible in fact. It is an absolute impossibility! By inserting the word *convertible* Laughlin has implied something contrary to fact and he has perpetrated the fallacy of "begging the question."

The fact is that the Currency School was entirely correct in its propositions, as formulated in the foregoing by Laughlin. It is a grievous mistake to let the Banking School or economists today, more than a hundred years later, confuse the people.

Our interest, however, is at this point primarily restricted to considering the "efficiency" of paper money, that is, that it should be used because it is cheaper than metal money. Laughlin wrote (page 267-8); (our italics, and note its significance from our present viewpoint of *efficiency*):

> The contention, however, that convertible notes could not be issued in excess, depends upon what "excess" means. Probably no one would deny the correctness of this position, if it were understood that convertibility carried with it efficient and ready means for immediate as well as for ultimate redemption. Instant convertibility, on demand, at various points throughout the districts wherein the notes are circulating, must, in the light of modern banking experience, permit to circulate no more of the medium of exchange than is required by the needs of business. But this should not be taken to imply that such notes, on entering the circulation, would not drive out a portion of the specie currency. To the extent that gold might have been used as a medium of exchange in aiding the movement of goods, a new issue of convertible notes would certainly take the place of this quantity of coin, *and save to the community that amount of the cost of the machinery of exchange.* The convertible paper and coin together might equal the sum of the original coin required; but it might very properly result that almost the whole of this medium might be made up of paper, coin being almost entirely retired to reserves. This is consistent with *modern devices for saving the use of the valuable standard commodity from being passed about as a medium of exchange.* In Great Britain, above the strata of small denominations of gold and silver coins, the Bank of England notes serve all the purposes of a medium of exchange instead of gold; while the deposit currency since 1844 appears also, as a medium of exchange, to have clearly *relieved even the bank notes of such duty* in the vast mass of transactions.
>
> Therefore, when the currency school contended that by excess they meant that "the whole money of the country, paper and gold, undistinguishably, is depreciated in comparison with the money of other countries," they could have referred only to the temporary processes, while in operation, by which the *superfluous specie, made such by economizing*

> *devices like bank notes,* was disposed of in the international distribution of the precious metals. But, assuming by "excess" that they meant they did not wish gold to be displaced by bank notes, and hence that bank notes should not be issued because, even if convertible, they would drive out gold (as evidenced by the course of the exchanges) they were correct in their anaylsis of the operation; but *their assumption was against the interests of the commercial public, because the substitution of an expensive gold circulation by paper was a saving to the community, . . .*

We quote the foregoing only for one purpose — to show how the *cost of money* influenced the view. The *motivation* behind the idea of the Banking School, and that motivation is pervasive among all advocates of circulation credit and other counterfeit money, is that *it is cheaper for the community to have paper money than to have metal money which is expensive to mine, heavy to transfer, etc.*

On the question of the cheapness — the unrivalled cheapness of circulation credit, whether deposit credits or bank notes — there should be no dispute at all. The answer is obvious. Substitute money is *always* cheaper to supply than metal money, or otherwise why would it be substituted. *But the cheaper that substitute money is, and the easier that it is to supply, the greater is the danger that the public will be robbed and impoverished by over-issue of circulation credit.*

The ideals of "efficiency" or low cost of money versus "retention of its value" are not *necessarily* contradictory, but there is a very great danger that they will be just that, unless exceedingly careful and important distinctions are made.

For money to retain its value, it must be of a kind so that it is expensive, rather than cheap, to supply. When in the previous issue it was proposed (on pages 248-9) to discontinue all *further* issue of circulation credit, then it was in effect proposed that the idea of having an artificially *low cost* media of exchange *be completely and permanently abandoned.* The principle of efficiency in money can be as seductive, and eventually as destructive, as a Cleopatra.

But it is an injustice to the members of the Banking School to imply that they alone were unduly afflicted with the idea of "efficiency" (low cost) in provision for money. Men such as Henry Thornton, a practical banker, held some questionable ideas on money, which indicated the tremendous impact of the efficiency

argument on his thinking. And, as previously indicated, Adam Smith and David Ricardo, highly superior reasoners, were also led astray by economy, or low cost, or efficiency considerations, in their thinking about what kind of money to employ in a community.

Ricardo, On The Value Of Gold And Economizing The Use Of Gold

David Ricardo wrote:

> Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally.
> — *The Principles Of Political Economy and Taxation*, (Everyman's Library edition, page 90)

This is Ricardo's reasoning: (1) A lowered cost of mining gold will result in greater profits to the mine owners. (2) The mine owners will then see to it that more gold is mined. (3) The availability of more gold will (according to the quantity theory of money) result in higher prices of other commodities, or, what is saying the same thing, will result in a lower value (purchasing power) of gold as money.

All other things being the same (*ceteris paribus*), Ricardo's statement is undoubtedly true. And it is, of course, wholly irrelevant to quibble whether *all* other things do or ever can remain unchanged. What of it? That does not qualify this proposition, but only what happens in a particular case, whatever that may be. It is improper to confuse principles and facts in such manner.

(1) If paper money were strictly a substitute for heavy gold lying in vaults; (2) if there were a dollar's worth of gold behind every dollar of paper money, then the "economy" or "efficiency" of substituting paper for gold would be unexceptional. But if paper money is an *addition* to the money supply over the amount of gold available, and if the quantity of paper money is not restricted by effective legal prohibitions, then the quantity of paper money will undoubtedly increase indefinitely, and the "value of money" will sink indefinitely. *Money, to be safe, must not be increasable except at a cost about equal to the present value of gold.*

But if the first step of a process consists in making the manufacture of additional money cheap (by issuing paper money of all kinds, including circulation credit), then Ricardo's statement can be paraphrased:

> If paper money is the real money of a community, completely unhinged from gold, then the eventual value of that money will not be determined by the numbers printed on it, but by the value of the paper, the printing of it, and the overhead costs from putting it out. In other words, it will be practically worthless.

That all the monies of the world still have some value is solely due to the fact that they are still *partially* tied to gold. Remove that tie and then the value of the paper will (as it always has in the past) eventually sink to its cost of manufacture which is practically nothing, just as gold money will sink to its cost of mining.

Later (page 241) Ricardo wrote:

> Experience, however, shows that neither a state nor a bank ever have had the unrestricted power of issuing paper money without abusing that power; in all states, therefore, the issue of paper money ought to be under some check and control; and none seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes either in gold coin or bullion.
>
> To secure the public against any other variations in the value of currency than those to which the standard itself is subject, and at the same time, to carry on the circulation with a medium the least expensive, is to attain the most perfect state to which a currency can be brought, . . .

With these statements of Ricardo we agree perfectly.

Fortunes can be made today by understanding and adjusting to the principles stated by Ricardo in the first paragraph.

And in regard to the question of a *sound* currency (namely, one based on metal) with *economies strictly limited to the substitution for existing gold,* we also agree perfectly. Economies should always be limited to substituting for *existing* gold, and "economies" should never be extended to provide additions to the gold.

(We shall return to these ideas later in order to note an exception from Ricardo which can be designated as minor but which is really important. He left a "crack in the door" by which much mischief could and did enter.)

Mises's Summary Of Smith's And Ricardo's Views On Economizing On Money

> As the naive Midas-like trust in the usefulness of a large stock of precious metals disappeared and was replaced by sober consideration of the monetary problem, so the opinion gained strength that a reduction of the national demand for money in the narrower sense constituted an outstanding economic interest. Adam Smith suggested

that the expulsion of gold and silver by paper, that is to say notes, would substitute for an expensive means of exchange a less expensive, which, however, would perform the same service. He compares gold and silver which is circulating in a country with a road over which all the corn has to be brought to market but on which nevertheless nothing grows. The issue of notes, he says, creates, as it were, a path through the air and makes it possible to turn a large part of the roads into fields and meadows and in this way considerably to increase the annual yield of land and labour. Similar views are entertained by community of the apparatus of circulation. His ideal monetary system is one which would ensure to the community with the minimum cost the use of a money of Ricardo. He also sees the most fundamental advantage of the use of notes in the diminution of the cost to the invariable value. Starting from this point of view, he formulates his recommendations, which aim at expelling money composed of the precious metal from actual domestic circulation. [*Theory of Money and Credit*, Yale University Press, 1953, pages 297-298.]

Hugo Grotius On "Natural Law"

Hugo Grotius (1583-1645), whose regular Dutch name was De Groot, was of a respected family in Delft, The Netherlands. In religion, he was an Arminian; in politics, he was opposed to the princely Orange family. In the time of Count Maurice of the House of Orange, Grotius was imprisoned for life, but his wife shipped to him while in prison trunkloads of books, in and out. On one of the shipments going out, De Groot was in the trunk, and not the books he had read. He fled to Paris. For the ten last years of his life he was Sweden's ambassador to France. Grotius was a modern ecumenist in religion; and a "one-worlder" in politics, if that is defined as being for universal peace. His best known books are against war, generally, and once there is war, to make it less barbarous.

Hugo Grotius, the Dutch political theorist, diplomat and theologian, in his famous book *The Law of War and Peace*, published in 1625, based his theories on the idea of *Natural Law*. (We are using the translation of W. S. M. Knight, Peace Book Company, London.)

Grotius's idea of *Natural Law* is an excellent illustration of

the unattractive intellectual consequences resulting from the unnecessary multiplication of terms.

Grotius was looking for a *universal law of nations,* a law higher than man-made law, which latter (a *human* origin) would be fallible and maybe be prejudiced. That *law of laws* he called *Natural Law.* He wrote:

> Natural Law is the dictate of right reason . . . It indicates whether an act is morally right or wrong, according as it complies or disagrees with rational nature itself. Such an act is consequently either prescribed or forbidden, as the case may be, by God the Author of Nature. . . . Natural law is so immutable that even God Himself cannot change it. For though the power of God be boundless, yet it may be said that there are some things to which it does not extend . . . as it is impossible even for God so to make it that twice two are not four, so He cannot make that which is intrinsically bad not to be bad; . . .

Every thinking man, in a sense, seeks for a supreme law, something greater than the statutes or court decisions of a particular nation. For *world* peace it is natural to seek a *world-wide* law, a so-called "natural" law, a law resting on the very nature of things, or even in God as Grotius endeavors to ascribe his Natural Law. Grotius was interested in *peace,* and to promote that he "manufactured" his idea of Natural Law. There are many noble ideas in his, *The Law of War and Peace.*

But it appears that his ideas on what Natural Law is has some serious defects. These "defects" (assuming that they are defects) are worth examining.

1. First, Grotius's Natural Law tolerates slavery. He wrote:

> Another unjust cause of war is the desire for liberty, whether that of individuals or that — autonomy or self-government — of States, as if it were a natural and constant right of every man or State. For when liberty is claimed as the natural heritage of men and peoples it must be understood only as a natural right as it existed before any human action in derogation of it, and as an exemption from slavery, but not an absolute incompatibility with slavery. So, though a man is not a slave by nature, yet there is no natural right which prevents him ever being a slave. For in the latter sense no one is free. "No one is born either free man or slave," says Albutius, "but fortune gives these names to them afterwards." [Pages 60-61.]

This may be Natural Law, or God's Law (whatever one may wish to call it,) but, if so, there are reasons for dissenting.

2. Secondly, Grotius disputes that "law [is] . . . insti-

tuted for the sake of utility alone," and he declares it is untrue what Carneades wrote, that "Utility is the mother of the Just and the Right" (pages 34 and 32). Grotius, living before the real development of economic science, ascribed society largely to "a desire for *mutual society* even though our necessities should have no actual need of it." But almost two centuries later Ricardo (1772-1823) worked out mathematically, in a demonstration that cannot be discredited, his famous *Law of Association*, which shows that the overwhelming reason for men to associate together is not "mutual society" but individual and personal benefit. (See Volume IV, Numbers 7 to 10, beginning on page 200.) If Grotius had lived three centuries later he might have written differently.

3. Thirdly, Grotius considers the Mosaic Law (the Decalogue) to be mere local or national law, and not universal Natural Law. He defines (page 43) Voluntary Divine Law, that is, law having its origin in the Divine will, and he adds the comment, quoting with approval Anaxarchus, that "God does not will a thing because it is just; but it is just, that is legally obligatory, because He wills it." This is a statement which will be unacceptable to many of us. Then Grotius goes on to say (page 43):

> XV. . . . This law was given either to all mankind or to one people only. And we find that it was given by God to all mankind on three occasions — the first, immediately after the creation of man; the second, upon the reinstatement of mankind after the Flood; and the third, on man's more sublime reinstatement through Christ. Without doubt these three laws oblige all men, as and when they acquire a sufficient knowledge of them.
>
> XVI. To only one people, the Hebrews, did God especially give laws, . . . the Mosaic Law, which binds only those to whom it was given, and not strangers . . . Hence, we may conclude that we are bound by no part of that law.
>
> XVII. Since, therefore, the Mosaic Law cannot, as we have just shown, impose any direct obligation upon us, let us see if it can have any other use — first, in this matter of the laws of war, and next, in other like questions. This is important in regard to many matters. First, then, the Mosaic Law shows that its commands are not contrary to Natural Law. And because that law is eternal and immutable, as we have already said, it is impossible that God, Who is never unjust, should command anything contrary to it. Add to this that the Mosaic Law is called pure and right in several places in the Scriptures.

It is clear from the foregoing that Grotius held to the idea that what he called Natural Law, or "right reason" was the ultimate standard by which to judge the Decalogue. The Decalogue, con-

trarily, was not, in Grotius's estimation, itself the ultimate standard. In FIRST PRINCIPLES we hold to the idea that the Decalogue is indeed the ultimate standard, the Law of laws, the Constitution of constitutions, the Law of Nations, or to use a term of the Romans, the *jus gentium*. We consider all people, in any time, in any circumstance, to be under the Decalogue. For us the Decalogue is itself the Natural Law.

* * *

Not only do we disagree with Grotius (1) concerning which outranks the other, his Natural Law or the Decalogue; and (2) concerning what the proper content of his Natural Law should be; but we also disagree in a very broad way with his basic approach. There is good reason to believe that Grotius unintentionally fell into a serious fallacy, viz., that of "manufacturing" a term (1) with a vague meaning, (2) mostly derived from the past, (3) put together in an eclectic or patchwork manner, and (4) that he added little of value to the "concept of law" by utilizing the term *Natural* Law, and glorifying that as the ultimate law of laws.

Grotius's approach, was, we believe, ancient and medieval. He was not really a modern, although he could have been. The modern intellectual age can be said to begin with William of Occam (or Ockham) (1270-1349), a Franciscan friar, who made an approach to the wordy discussions of the philosophers of the Middle Ages which was a death blow — a *coup de grace* — to scholasticism. The scholasticism of the medieval era was, in a sense, a facade of Christianity attached to the framework of Greek philosophy. This Greek influence had come in especially through Augustine. In this system, words and ideas were greater than specific things. The great ideas (using Plato's term) outranked everyday specific reality. The soil in which these so-called "*great ideas*" grew was the soil that consisted in quibbling endlessly about terms and talking about abstractions. That approach resulted in the *multiplication of terms*, or of words. Occam, who became known as the Invincible Doctor (presumably because in dialectics he could "pull the rug out from under" any of his opponents), developed apparently a remarkable technique to unmask the fact that his opponents were mouthing words, which sounded learned but meant little, or at least not what they were intended to mean. He showed that the other man's argument was little more than a new term for

some old idea or some confusion of ideas. He phrased his critique in the famous slogan known as Occam's Razor, namely, *Entia non sunt multiplicandum praetor necessitatem,* that is, terms must not be unnecessarily multiplied or proliferated.

What, upon sober inspection, is Grotius's famous Natural Law? It is nothing more than a combination of the ideas in Scripture and in the writings of Seneca, Plato, Aristotle, Cicero and many others. His Natural Law is not anything new or something created or discovered by Grotius. Whatever merit Grotius's ideas have do not depend on their being glorified as Natural Law, but they stand or fall on what they are *specifically. Specific* rules of conduct have more real meaning than *general* ideas such as Natural Law.

* * *

Occam's Razor did not make a really new approach to *law,* or ultimate law, or supreme law, or natural law, or divine law, whatever you call it. In the field of laws for human behavior or human action, Occam's Razor was a "throw-back" to Moses. In an anachronistic sense, it can be said that Moses was the first Occamite.

There is nothing *general* about the Decalogue. It is as specific as anything can be. In the field of human behavior it talks about murder, adultery, theft, falsehood, covetousness. There are no "great ideas" here, *in the Platonic sense.* In the Decalogue the abstract does not take the place of the specific.

In First Principles we are not Occamites *in method,* because Moses agrees with Occam. We are, instead, Occamites *in method,* because we follow the teaching of the Decalogue. What Grotius called mere tribal and Hebrew law, we call universal law.

* * *

A pitifully narrow view can be taken of the ethical rules in the Decalogue, namely, they forbid coercion, adultery, theft, fraud, and the motivations that induce such *specific* acts; so much, and no more. But the Decalogue, as we read it, has three parts, two of which are implicit and one of which is explicit. The three parts of the Decalogue are:

1. Acts injuring a neighbor are forbidden; this is the explicit part; everybody can "see" that; no assumptions are necessary.

2. All else is *free;* you can do all that is not forbidden. The world is, therefore, really intended to be a realm of pervasive freedom. You may do anything except hurt your neighbor, and in what that hurting him consists is plainly stated. This part of the Decalogue is not explicit, but only implicit. It is there, but it is not always seen. Failure to see this is a very great and dangerous failing.

3. If your neighbor injures you, you may not vindictively retaliate by in turn injuring him. *Forbearance and utility must govern your reaction to the evils others inflict on you.* This also was always implicit in the Law of Moses. But because it was not explicit it was lost sight of. The teachings of Christ made this part of the Decalogue explicit, rather than merely implicit. Read the Sermon on the Mount; "Resist not evil *with evil.*" Do not be vengeful, but be helpful to your neighbor, despite his prior acts. The Sermon on the Mount explicitly adds utilitarianism to what was always implicit in the Mosaic law. The Decalogue is always intended to be helpful to all men and is never intended to be hurtful.

In Old and New Testament times, scriptural thinking on ethical questions was individualistic, not general; specific, not scholastic; "modern," not medieval; Occamish and not Platonic. The foundation of the ethics in this publication is Hebrew in character and not Greek.

* * *

If, finally, it is rebutted that there was deterioration in New Testament times, away from what was specific, in the form of the *general* statement, Thou shalt love God above all, and thy neighbor as thyself, then a completely satisfactory rejoinder can be given, namely, (1) this formulation pertains to an objective rather than a method; and (2) the method (for the purpose of showing love to God above all and to the neighbor as to the self) is always explicitly *identified with* the Decalogue.

There is *nothing new* in the idea of loving the neighbor as thyself. The exact statement occurs in the Old Testament in Leviticus 19:18b, where one can read: "Thou shalt love thy neighbor as thyself."

The statement meant no more in the New Testament than what it meant in the Old Testament; see Matthew 19:17b-19, where one can read:

> . . . if thou wouldest enter into life, keep the commandments. He [a young man] saith unto him, which? And Jesus said, Thou shalt not kill, Thou shalt not commit adultery, Thou shalt not steal, Thou shalt not bear false witness, Honor thy father and thy mother; and, [then and thereby] Thou shalt love thy neighbor as thyself.

Here is a perfect linking of the "specific" of the Old Testament with the "general" of the New Testament.

* * *

The groping of philosophers and political thinkers for a "natural law," or a "universal law," for an "unbreakable law," for a *real* law of human action is understandable. What might that "ultimate law" be?

To that question, an excellent answer is, *self-love*. Scripture teaches this plainly when it instructs a man to "love thy neighbor *as thyself*." *Self*-love is the standard. Obviously, you cannot, by this rule, love the neighbor much, unless you first love yourself much.

By a process of pejoration *self-love* can be down-graded by the use of the terms *self-interest* and, in an even more pejorative way, by the use of *selfishness*. But what is selfishness *rightly* understood, and what can be wrong with it? Is it more than preferring what one likes more over what one likes less? And what is wrong with preferring that? Simple *selfishness* is therefore not to be criticized. (There are, of course, bad types of selfishness.)

But *self-love* can be upgraded as well as downgraded. This upgrading can consist in substituting *self-preservation* for self-love. What is self-preservation but a vigorous form of self-love? Are we not entitled to self-preservation? What are the commandments against murder, adultery, theft and fraud but specific defences in order to promote "self-preservation." Again, Scripture is not philosophical or scholastic but practical and Occamish; it mentions the specific acts that endanger self-preservation, and condemns those *specific* acts. How good would the Decalogue be, as a practical guide, if it merely legislated, Thou art entitled to self-preservation? The Decalogue is therefore *universal* law because it legislates speci-

fically against what endangers self-preservation. Under every vicissitude of life a human being strives for self-preservation; it is the last thing a man abandons; therefore, self-preservation is the quintessence of Natural Law, that is, of the Natural Law which Grotius was trying to discover. So much for the defensive phase of the Decalogue.

The *freedom* phase of the Decalogue can be designated as an opportunity for self-development. If everything is indeed free, except to injure others, for what more could a man properly want that freedom than for self-development? This freedom may, unfortunately, be abused or not be well utilized, but self-development obviously depends wholly on the existence of freedom. The demand for opportunity for self-development exists everywhere, and in all times and circumstances. This *phase* of the Decalogue is, therefore, also universal, and should be satisfactory for meeting the test of Grotius's Natural Law.

Finally, forbearance and goodwill toward even those who injure us — as required by the teaching in the Sermon on The Mount — is a necessary adjunct to the prohibitions against evil acts and to the exercise of freedom. Machiavelli was a great political and social thinker, in many ways a most admirable author. But there is a grave lack, which everybody senses, in Machiavelli. The lack is exactly in the absence in his teachings of forbearance, generosity, kindness, goodwill. The greatness of Abraham Lincoln consisted contrarily therein, that he incorporated in his program noble forbearance and goodwill:

> "With malice toward none; with charity for all; with firmness in the right, as God gives us to see the right, let us strive on to finish the work we are in; to bind up the nation's wounds; to care for him who shall have borne the battle, and for his widow, and his orphan — to do all which may achieve and cherish a just and lasting peace among ourselves, and with all nations.
>
> — Second Inaugural Address, last paragraph.

Grotius himself finishes his book with some noble. secular quotations, teaching what the Sermon on the Mount teaches. He quotes Tacitus as follows:

> Excellent are the conclusions of those wars where pardons are the characteristic of the final terms.

And he also quotes from a letter of the not-so-admirable "dictator" Caesar:

> Let this be a new way of conquering: *to protect ourselves by mercy and generosity.*

The Right To Work

According to a report issued by Fortune magazine, Europe has strong labor unions but, with a few exceptions, has avoided labor contracts requiring workers to belong to a union before they are employed or forcing them to join shortly thereafter.

Even in labor-dominated Britain, the vast majority of workers are free to join a union or not, according to their own choice. Sir Charles Geddes, former president of Britain's Trade Union Congress has said:

> "I do not believe in a closed shop. . . . There is a fundamental issue here of the right of the individual to say whether or not he would become associated with other people. . . . I want the right to exclude people from my union, but that cannot be done on the basis that everyone must belong or starve."

France has a strong group of labor unions but contracts are not written between labor and management requiring the former to join unions or lose their jobs.

Germany and Italy also have powerful trade-union movements but the principle of the open-shop is recognized and practiced everywhere. This would seem to discredit the voices in America that proclaim right-to-work laws are "union-busting" measures.

—Dr. Howard Kershner
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