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

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The Cause Of Depressions

If neither *general overproduction* nor *shortage of money* causes depressions, then what does?

The *cause* of depressions is remote from observation; therefore, the explanation must begin some distance from the observed effect. An illustration can be drawn from physiology. There are various causes for kidney stones. The natural thing is to seek the cause in the kidneys themselves. But *one* cause of kidney stones is known to be a pea-size tumor on one of the four thin parathyroid glands in the throat, which are no bigger than finger nails. The cause of depressions and depressions themselves are as remote as the throat is remote from the kidneys.

In this explanation the following questions will be considered:

1. What is *interest on money?*
2. What is *interest* in a broader sense?
3. Do the Hebrew-Christian Scriptures forbid interest?
4. What determines the interest rate?
5. How does lowering the interest rate cause booms?
6. How do booms, *inevitably,* end in depressions, or in something even worse?
7. A summary, answering the question: Who and/or what causes depressions?

I. WHAT IS INTEREST ON MONEY?

If you have $1,000, and if you let another use that $1,000 for one year, he will be willing to pay you say 5% on that amount, or $50, for the *use* of the $1,000. At the end of the year he will pay back to you $1,050.

It *appears* then that interest is a reward for the *use* of money, but "things are not what they seem." The root cause of interest is not *use.*

Many people erroneously think that interest is intrinsically a monetary phenomenon. They apply illogically the "quantity theory" of money to interest rates. They reason as follows: (1) increasing the quantity of anything lowers the price; (2) the "price of money" is the interest rate on money; (3) increasing the quantity of money will therefore lower the interest rate; and (4) consequently, in order to lower the interest rate, the thing to do (so they say) is to increase the quantity of money.

This reasoning is *logically* false, and it is (consequently) also *historically* false. A modern example will make the point clear. In Brazil the quantity of money is being increased rapidly. That being true, the interest rate should be very low in Brazil. The fact is that in Brazil banks have been charging 20% interest per year on *cruzeiro* loans. There *must* therefore be something wrong with the idea that increasing the money supply lowers the interest rate. (The *cruzeiro* is the Brazilian money unit.)

Nevertheless, the idea is so plausible that it is difficult to disabuse oneself entirely of the thought that increasing the quantity of money will lower the interest rate. It is necessary to remember that (1) according to the quantity theory of money, prices of goods increase when the supply of money is increased (other things being unchanged); but (2) it is an altogether different proposition to say (by a misapplication of the quantity theory of money) that interest rates will decline when the supply of money is increased.

The quantity theory of money does not have *two* propositions in it, namely, (1) that increasing the quantity of money raises the prices of goods and services, and (2) that it cheapens the cost of money in the form of lower interest rates. Instead, it should be reiterated: the quantity theory of money has one and only one clause in it, to wit, increasing the quantity of money increases the prices of goods and services — that, and that *only;* it does *not* lower the interest rate.

We are here talking about the total money supply and the over-all rate of interest. In some *narrow* segment of the total

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market the rate of interest may be affected, or the total market may be *temporarily* affected. If in San Francisco for some special reason half of its loan money supply is shipped to Pittsburgh, then the bankers in San Francisco will be obliged to ration their remaining loan funds and they will do so by loaning only to those able and willing to pay higher rates. Contrarily, in Pittsburgh, the bankers who have the increased supply of loan money will wish to put it to work, and in order to do so they will lower interest rates. But the lower rate in Pittsburgh is offset by the higher rate in San Francisco. A rate at *a time,* and at *a place,* may be affected by the supply of loan money. But then there must be an offsetting situation elsewhere.

It might be argued that the illustration has been slanted; what, it might be asked, will be the situation if the loan money supply is increased in *both* San Francisco and Pittsburgh? But again the question must be asked, where did the extra money come from? If from elsewhere, then the rates will be as much higher elsewhere as they are lower in San Francisco and Pittsburgh.

If it is assumed that the increased supply of loan money in San Francisco and Pittsburgh came from nowhere else, but was newly mined or "manufactured," the eventual consequence in those two cities will be that prices will rise, according to the quantity theory of money. The additional supply of money will not do better work than the old supply, but will create a *temporary* illusion of prosperity. *When the increases in the prices of goods and services fully reflect the increased supply of money (according to the quantity theory), then the subsequent demand for loan money will be as intense as formerly, and the artificially lowered interest rate will be replaced by the old interest rate.* Prices will be higher, but interest rates will not be lower. Increasing the supply of money cannot do more than lower the interest rate *temporarily.*

There is nothing new in the foregoing. David Hume (1711-1776) long ago clearly stated what the situation is. In his essay "On Interest" (*Essays Moral, Political and Literary,* Grant Richards, London, 1903 edition, pages 303ff.) he wrote:

> Lowness of interest is generally ascribed to plenty of money. But money, however plentiful, has no other effect, *if fixed,* than to raise the price of labour. Silver is more common than gold, and therefore you receive a greater quantity of

> it for the same commodities. But do you pay less interest for it? Interest in Batavia and Jamaica is at 10 *per cent*, in Portugal at 6, though these places, as we may learn from the prices of every thing, abound more in gold and silver than either London or Amsterdam.
>
> Were all the gold in England annihilated at once, and one and twenty shillings [of silver] substituted in the place of every guinea [of gold], would money be more plentiful, or interest lower? No, surely: we should only use silver, instead of gold. Were gold rendered as common as silver, and silver as common as copper, would money be more plentiful, or interest lower? We may assuredly give the same answer.
>
> * * *
>
> All augmentation has no other effect than to heighten the price of labour and commodities; and even this variation is little more than that of a name. In the progress towards these changes, the augmentation may have some influence, by exciting industry; but after the prices are settled, suitably to the new abundance of gold and silver, it has no manner of influence.
>
> An effect always hold proportion with its cause. Prices have risen near four times since the discovery of the Indies; and it is probable gold and silver have multiplied much more: but interest has not fallen much above half. *The rate of interest, therefore, is not derived from the quantity of the precious metals* [that is, money]. [Our italics.]

Interest rates are not made high or low by varying the quantity of money. Although we shall not follow Hume exactly, this is what he wrote (page 305):

> High interest arises from *three* circumstances: a great demand for borrowing, little riches to supply that demand, and great profits arising from commerce: and [those] circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the three opposite circumstances: a small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: and these circumstances are all connected together, and proceed from the increase of industry and commerce, not of gold and silver.

Men in general determine the interest rate. They do that by a simple (for most people, unconscious) method. What this is, is easily explained and understood.

Men "discount" time. By that is meant that they value present goods higher than future goods. Material goods which are *very* remote-in-time men consider valueless.

If one man undertook to promise a friend $1,000,000 one thousand years hence, the friend would treat it as a joke. What good would the $1,000,000 be to him, if he was already 950 years in his grave, and his grave maybe unknown? And his Santa

Claus friend just as dead physically as he would be? In this case "time" has "discounted" the $1,000,000 down to zero.

Suppose, however, that a father promises a son $10,000 ten years hence and, in order to "guarantee" that, he gives his son a note for $10,000, due in ten years. Let us assume the father's assets are so substantial that the note is indubitably good. Let us assume that the father wishes the son to get the money only after ten years, but that the son is undutiful and as soon as he gets the note, he goes to the bank and asks the bank to "buy" the note. Will the bank pay him $10,000? Indeed not. If it did, it would be giving the young man $10,000 *now,* but it would have to *wait ten years* before it could get the $10,000 from the father. No one, possessing judgment, would evaluate $10,000 ten years hence to be worth $10,000 now. It is because the understanding of that idea is not limited to bankers, that bankers do not control the interest rate. They are merely a part of the machinery by which the interest rate is determined, but the people who determine the interest rate are a combination of the thrifty and the spendthrifty; those who save, and those who want funds to invest either in capital goods, or to spend before they themselves have earned it.

What will a banker pay for this note of $10,000?

Let us first assume two things: (1) that the prevailing interest rate is 5%, and (2) that the note is only for *one* year. Then the bank will pay the young man the quotient obtained by dividing $10,000 by 1.05, or $9,523.81, a difference of $476.19 which is the *discount,* or in more inaccurate terms, the *interest.* If the interest rate is 4% or 6%, the divisor would be 1.04 or 1.06.

If the note was for two years, the next step would be to divide the $9,523.81 by 1.05 again, to which the quotient would be $9,070.29. If the note was for three years, the $9,070.29 would again be divided by 1.05, or $8,638.37.

Similarly, back to the tenth year. The figure would be $8,227.02 for the fourth; $7,835.26 for the fifth; $7,462.15 for the sixth; $7,106.81 for the seventh; $6,768.39 for the eighth; $6,446.09 for the ninth; and finally $6,139.13 for the tenth year.

The shrinkage from $10,000 to $6,139.13 is $3,860.87, which is the *discount* — the lower valuation — because of the lapse of time, on $10,000 due only after ten years, at a 5% discount rate per year.

Interest is not a reward for productivity, direct or indirect. John Calvin, although an acute thinker on interest, made that mistake. He said that interest on money was paid *because* the money could have been put to use to buy land which would yield a rent (that is, would be productive), and so there would have to be interest paid on money, or otherwise people would invest only in land and would refuse to loan money itself. The argument is good as far as it goes, but finally explains nothing, because rent itself needs to be explained, something which Calvin did not think of undertaking.

If an acre will produce 40 bushels of wheat, which will sell at 50c per bushel more than the cost (except rent) to produce it, or $20 net per acre, why should not that one acre sell for 10,000 years x $20 = $200,000 an acre? Or why not price that acre on the basis of its yield in 1,000,000 years (1,000,000 x $20 an acre), or $20,000,000 for that one acre of land? Why not go further, into infinity by using infinity as the multiplier? If yield times the profit from producing wheat — *without discount for time* — will produce that much money, why does land not sell for such fantastic figures? Obviously, there must be a *discount* for something somewhere in the calculation.

The fact obviously is that land is not *priced* on its yield only. It *appears* that way, but it is not. Let us lower the years to a more modest figure. Why should not land sell at least at what it will yield in one man's lifetime of 80 years? In 80 years it will yield 80 x $20, or $1,600. Shall we then price this acre of ordinary farm land at $1,600? If so, then the yield in percentage will be the quotient of $20 divided by $1,600, or 1.25%. Land does not sell to yield only 1.25%. And so yield, or productivity does NOT alone determine the rent on land, and consequently *cannot* be the basis of money interest, as Calvin erroneously reasoned.

Something else determines the rate of interest — and that something else is the *discounting, by men in general, of future values to a present basis.*

By *how much* men estimate the value of future goods to be lower, they *discount* the value; that is the *discount rate,* or as it is also called, the interest rate. *Discount* is the *descriptive* word.

Despite that fact, many business men consider interest to be a manifestation of *productivity,* or a reward for *abstinence,* or a payment for *use.* These are fallacies. Labor union leaders, contrarily but almost equally universally (following Marx), believe that interest (and rent and profit) is something filched from the working man, and so is *exploitation* of the employee. This explanation is equally erroneous. It also is a fallacy.

That interest is related to time is evident from the fact that interest is *noncomputable except on a time basis. Time* is of the *essence.*

II. WHAT IS INTEREST IN A BROADER SENSE?

The simplest return, or income, that a man can think of is a reward for labor. Even Adam had to work to get an income. The fruits — apples, pears, berries — on which he subsisted did not fall into his mouth. He *had* to *work.*

Men can be in any of three categories:

1. A man can be a wandering hunter for game, a wandering fisher for fish, or a wandering berry picker in season. *This is the poorest living that there is.* It is the hardest work; and the most precarious living. Adam was in that class during his early life. Moses makes that clear in Genesis.

2. A man can be a tiller of the soil, or a caretaker of flocks. Then he no longer wanders. He has some elementary tools. He can survive better than as a non-tiller. Cain and Abel advanced to this higher level of subsistence. Cain was a farmer and Abel a shepherd. In the cases where a man is a mere hunter, fisher or berry picker, he depends really on what raw nature provides.

3. The third step, from tillage to capitalism, is greater than from hunting to tillage. *Prosperity* for men, as distinguished from hazardous survival (hunting), and poverty (mere tillage), depends on something God did not create — namely, capital. *Capital* is natural forces, harnessed or guided or converted by men, so that the strength of those natural forces works *for* men. A simple example is the work of a steam engine. The *power* depends on natural law — the conversion of water into steam, and the use of steam pressure to do *work.* (See Volume III, pp. 266-297.) Capital is, therefore, extremely valuable to man. In a

figurative sense *an eighth day of "creation"* might be declared to exist, namely, that on the eighth day man (not God) began to *"create"* capital. (See Volume III, pp. 266-288.) When *capital per capita* increased, then human material prosperity increased.

On what then does production and income depend? Apparently, on several things: (1) labor, remunerated as wages; (2) natural resources, remunerated as rent; (3) capital, remunerated as profit; or (4) use of money, remunerated as interest. This list, although pat in form, is deceptive. Rent is *not remuneration* to natural resources; profit is *not remuneration* to capital; nor is interest a *return on money* — in the sense that most people understand that.

Profit, rent and interest (in an economic sense) are the same thing under different forms. (The most ambiguous of these terms is *profit,* but it will be unwarranted digression to go into detail.) The origin of all three rests in *time* — that discounting of future values to a present basis.

This often appears in an inverse form, not so much in the pricing of a future good lower (as in the *discounting* of the $10,000 note just explained) because of the time factor, but in the form of adding something to the present value in the form of an "interest" charge. Instead of working back from the future to the present *by discounting,* it is also possible to work forward from the present to the future *by addition.* For example, a man loans you $1,000 now and you pay him back at the end of the year $1,000 plus $50, or $1,050. To make the future value equal to the present standard, something had to be *added* to the present base. It is "six of one" or a "half-dozen of the other" whether (in the previous illustration) $3,860.87 is added as ten years' compound interest on $6,139.13; or the future value of $10,000 is discounted by $3,860.87 to $6,139.13.

Instead, then, of four kinds of rewards: (1) wages, (2) interest, (3) profit, (4) rent, there are in *principle* really two — (1) wages and (2) all other forms of income which are all of a *discounting* character, and are the *so-called* remuneration of natural resources as rent, of capital as profit, and of money as interest. In economics, the "reward" to these three (land, capital and money) has a common generic name, *interest.* In other words, *interest* has a narrow meaning as a return on money only, but it also has a broader meaning as a return not only on money, but also on natural resources and on capital.

That "return" is in dispute between those who favor socialism-communism and those who favor capitalism. The socialists-communists say that this return — this discounting of the "yield" from natural resources, capital and money to allow for time delay — is an unwarranted and immoral return. The theorists for capitalism, contrarily, say that this return is "in the nature of things" and is unalterable, inescapable — even in a socialist-communist economy — *because men discount future values when converting them to a present basis.*

This whole question of *interest* in the broad sense is one of the most fundamental in society. Disturbance in regard to *interest* can, therefore, gravely undermine the stability of society. In communist countries, the attempted elimination of *interest* (in a broad sense, as defined) changes the whole character of that society. If bringing interest, say, from an average rate of 5% to zero (as in communist countries) results in revolution and convulsion, the variation of the rate within capitalist societies between 2% and 7% (also a 5% range) could obviously result in grave convulsions known as booms and depressions. That is what happens.

III. DO THE HEBREW-CHRISTIAN SCRIPTURES FORBID INTEREST?

The Hebrew-Christian Scriptures prohibit neither interest nor even usury *in business.*

Interest, as just explained, is a generic term, covering rent and profits as well as a return on money. There is *nothing* in Scripture which declares that rent on land is immoral, nor profits in a business. Only one small segment of interest, namely, interest *on money,* seems to come under the ban of Hebrew legislation. (See Exodus 22:25; Leviticus 25:35-37; Psalm 15:5.) Contrarily, the whole Hebrew-Christian moral law *assumes without question* the existence of private property, the collection and payment of rent, profits on trade and investment, and the collection of interest on funds loaned *in business* (as, for example, business with foreigners).

But there is a *limited* ban in Scripture on interest. Some people, although in distress, should not get a loan. A creditor by making a loan may contribute to the injury of a borrower. There ought to be a penalty on such loans, which are not business loans, and Hebrew law provided such a penalty — no interest might be collected on them. In the Hebrew Scriptures it is not the interest itself which is in dispute (if it was, the Hebrew law was based on confusion), but the moral validity of a loan *to innocents or desperate folk — the very poor.* Neither innocents nor the desperate should fall into the hands of a business-like, and much less, an exploitive, lender. His rates will be high. The innocent and the desperate ought either to stay out of business or be helped *in other ways.*

Modern secular *usury* laws — laws saying what is legitimate interest and what is exorbitant interest — have the same base as has just been outlined. To prevent loan sharks from taking advantage of fools and unfortunates, a maximum rate is set today, say 7%. The Mosaic rate is 0%. The idea is the same, and the difference is only in the figure.

Usury laws *for business* are undesirable and morally invalid. If a smart man without money sees a way to make 30% on a new investment, why should whoever might lend him money charge only 7%? It is far better that the would-be borrower obtain an 8% or 10% loan, than no loan at all. High profits are often hazardous. If a smart man is prepared to pay a high rate and a lender wants a compensatory participation, then the anti-usury rate (of a Mosaic character) is not properly applicable.

There is *nothing* in Scripture that legislates about *business* rates of interest. How could Scripture wisely set a rate which is the inescapable but variable discount between present and future values? Those discounts properly change with circumstances. A big discount (which means *apparently* usurious rates) is desirable in business at times.

Interest in the business sense is not under the ban but the blessing of Scripture.

IV. WHAT DETERMINES THE INTEREST RATE?

If the question is asked, *What determines the interest rate,* it is not possible to answer it before designating first what interest rate is being talked about. Here is a list of the *kinds of interest* which can be subsumed under "interest" in the foregoing question:

A. Interest rates, in the universal sense

1. The *natural rate* of interest.

B. Interest rates, in a narrow sense
  1. The *long-term rate* of interest, on bonds and mortgages.
  2. The *short-term rate of* interest, on commercial loans made by banks.
  3. The *rediscount rate* of the Federal Reserve Banks in the United States, or of central banks elsewhere. (A *discount* or *rediscount* rate, as has previously been explained, is an inverted form of interest, but is in reality the same thing; the base for the calculation of the discount is different from the base for the calculation of interest; *interest* is added to the present value to make the lower future value equal to the present; *discount* is subtracted from the future value to show what it amounts to presently. The base *only* is different.)

C. Interest rates, in a broad sense. These include, in addition to money rates:
  1. Yields on common stocks, as dividends and as retained earnings.
  2. Yields on natural resources, as rents from farm lands and real estate generally.

D. Pure interest, versus other factors added to the pure interest rate; these other factors are such as disguised insurance premiums for potential losses from hazardous risks; or as a disguised compensation for that subtle loss of principal known as inflation; etc.

In the compass of this article only the briefest consideration can be given to these different types of interest.

There being so many kinds of interest, it is nonsensical to think that there will be a uniform interest rate; the variations will be infinite.

The Natural Rate Of Interest

Let us begin with the *natural rate* of interest. This is the *prevailing* discount of future goods to bring them to the present basis. Who is the individual who would have the temerity to declare exactly what it is? This rate will have a few characteristics which are hardly disputable.

One of these characteristics is that the rate is *fairly stable.* It is a figure arrived at in a massive market of hundreds of millions of people. All make their contribution, although many do so unwittingly, to the rate. How much or how little they look to the future, and how much or how little they themselves "discount" a future value to bring it to a present basis, determines the rate.

Another characteristic is that the natural rate of interest is probably *in the neighborhood of 5% annually,* certainly at least 3% and hardly 7%. (Many might say that the rate is between 4% and 6%.) For simplicity's sake, we accept 5% as the *natural rate of interest;* let anyone else choose his own.

At that rate, at compound interest, money at 5% will double itself in about 14 years. Another way of saying the same thing is that at 5% $10,000 available only after 14 years is worth only $5,000 now.

It is not a question whether natural interest is right or wrong as a principle, nor at this specific rate. We submit, merely, that it is an approximately correct description of facts. People as a mass simply will not evaluate future goods as worth so much as present goods. (*Individuals* can be found who will, in *specific* cases, value a future good even higher than a present good, but they are exceptions. There are other minor exceptions.)

The *natural rate of interest* is not recorded anywhere. You will not be able to find quotations in magazines or newspapers.

Interest Rates in A Narrow Sense

Interest rates in a narrow sense are all definite *money* rates of interest, and we have divided them into three classes, (1) long-term rates, (2) short-term rates, and (3) rates charged by central banks (that is, the government banks, as the Bank of England in England, or the Federal Reserve Banks in America).

Four charts are presented to show: (1) prime commercial loan rates, which are the rates of interest that the companies which are most respected in the financial community have had to pay for short-term money since 1952; (2) the New Corporate AAA bond rates, which are the rates that the best companies have had to pay for long-term money (repayable only after several years); and (3) the rediscount rate of the Federal Reserve Bank of New York, the bellwether of the 12 Federal Reserve

Banks. (These charts are replicas of those shown in the October 1959 issue of the admirable *Monthly Letter* of the First National City Bank of New York.)

CHART I

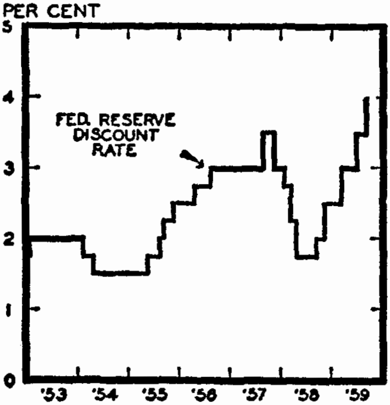


CHART II

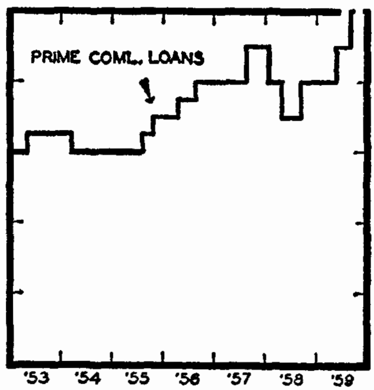


CHART III

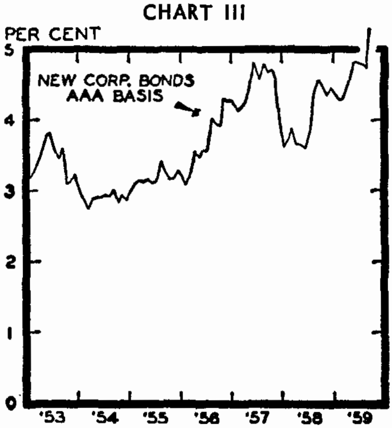
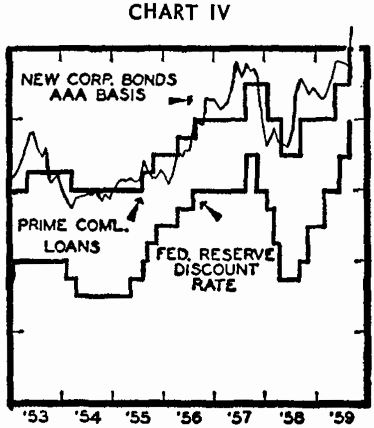


CHART IV



The years from 1953-1959 inclusive are shown on the horizontal scale; and the interest rate on the vertical.

Chart I: The New York Federal Reserve Discount Rate has these characteristics: the rate is lower than that of prime commercial loans or bonds; further, the fluctuations are relatively more violent. The figures on three recent dates are:

September 1957	3.50%
June 1958	1.75%
October 1959	4.00%

In the nine months from September 1957 to June 1958 the rate was *halved* — from 3.50% to 1.75%. Then in the following 17 months the increase is from 1.75% to 4.00%, an increase of 129%.

Chart II: Certain characteristics of this graph of commercial loan rates immediately draw attention, for one, the *lowness* of the line; it has prevailingly been under 5%, which percentage has earlier herein been estimated to be the *natural rate.* The lowness may be ascribed to the fact that these are the most-preferred loans, and consequently will have the lowest rate. It may also be held that the financial policy followed by monetary authorities, *under pressure of public opinion and political parties,* has made money rates abnormally low. This significant factor cannot be measured; every man can have his own opinion. The trend of the rates has been upward. The rates in the early 1950s were *abnormally low,* because of political policy and pressure. There is little reason to believe that rates will go down significantly unless an easier money policy is again adopted.

Chart III: The variations in the yield on bonds has been similar to the variations in prime commercial loan rates. The two markets are related. Bond yields tend to be a little higher than commercial rates, because *long-term* loans are, in a sense, less attractive than short-term paper. Further, the range of fluctuation of bond yields is a little wider than the fluctuation in commercial rates.

Chart IV repeats the graphs appearing in the preceding three, so that comparisons may more easily be made.

Interest Rates, In A Broad Sense

The "interest" (that is, the earnings on the market value) on shares in corporations, and on land (that is, rent), are seldom, if ever, computed in a comprehensive manner.

The First National City Bank of New York publishes annually a figure described as "percent return on the net assets" of some 3,500 leading corporations. The figures are as follows: for the year 1956, 11.3%; for 1957, 10.6%; for 1958, 9.0%. But in a sense these figures lack significance. They are calculated on the basis of "book values." These book values do not allow fully for the inflationism which has occurred. On present-day *market* prices, the yield is much less than shown in the foregoing. The reason is that market prices are in general above the partly uninflated book asset figures. If well-regarded stocks are (on the average) selling at 60% above book values, then the yields shown in the foregoing should be recomputed by dividing by 1.60, or, be for 1956, 7.1%; for 1957, 6.6%; for 1958, 5.6%.

These data refer to the largest and the most-profitable companies. If *all active* corporations are included, the percentages decrease. In an earlier study covering 19 years, the figure was 4.5% of *book* values.

All these figures on "interest" are "corrupted" on the high side by the systematic inflationism which has been continuing since the United States went off the gold standard.

"Interest" on the market price of stocks is less than some people seem to think. It may be doubted that the real return on common stocks for *all active* corporations equals 5% — the figure previously somewhat arbitrarily selected as the "natural rate of interest."

Data are not available on the "interest," that is, yield, on investments in land.

Pure Interest

Really, pure interest is the same as natural interest but the term *pure* is useful to designate that other factors than those determining the natural rate are included in published interest rates.

Pure interest is in a sense an abstraction, because other factors than the "discount for the time factor" always enter in. Consider the interest rate on cruzeiro loans in Brazil of 20%. What puts the rate so high? The expected *further depreciation* of the value of the cruzeiro. If at the end of a year, a cruzeiro is expected to buy 15% less than at the beginning, it is not unnatural that the interest rate is as high as 20%, which should be collected to allow for (1) a 15% inflation of prices (that is, a 15% depreciation of money), plus (2) 5% as "pure" interest.

In 1959, interest rates rose in the United States. Does that mean that the *natural* rate of interest or the *pure* rate of interest increased? Not necessarily. It would even be possible that the presumed pure rate has actually decreased, through miscalculation or otherwise. If, for example, the financial and labor union developments during the 1958 "recession" convinced many people (and reasonably so) that inflation will continue indefinitely and maybe with an accelerated tempo, then a potential borrower might be happy to pay 1% more for borrowed money (an increase from 5% to 6%), if he believes that stock prices will inch upward say an *extra* 3% per year. The higher interest rate of 1% is then only a partial allowance for the accelerated inflation of 3%. Really, under those assumptions, borrowed money is "cheaper" in the final analysis at 6% than at 5% because it is well compensated by the 3% increased inflationary rise in prices.

* * *

Having considered the varied forms in which "interest" manifests itself — in money rates in the long-term and short-term money markets; in central bank rediscount rates; in yields on stocks and rent on lands — we can come to the question itself: what *determines* the interest rate?

In this question the word *interest* does not mean the generic term, but only the *loan* money rate, especially the short-term commercial loan rate and the long-term bond rate. There are three main factors determining this rate:

1. The current *natural rate* of interest, as explained, is the basic factor. This is supplemented by:

2. An adjustment or correction, up or down, for expected change in the purchasing power of money. And finally there is a further adjustment or correction caused by

3. The deliberate actions of men, motivated by purposes (a) of affecting the money supply, (b) of creating prosperity (or the illusion of prosperity), (c) of counter-balancing policies which will create chronic unemployment, etc.

In regard to the second item, the Brazilian illustration is a case in point. Instead of 15% allowed for inflationism in the cruzeiro loan rates, let us take a more moderate rate of 1% a year. If the natural rate is 5%, then 1% would be added to the rate on loans. Vice versa, if the long-term trend of prices was estimated to be downward by 1% a year, then the rate would be 5% for the natural rate, minus 1% for the expected price decline, and the rate would be 4%.

Finally, although neither central bankers nor commercial bankers can control the natural rate nor the effects of changes in the quantity of money, they can — and do — endeavor to affect the interest rate on commercial and long-term loans *by vary-*

ing the supply of money. (As previously outlined, the *real effect* of that action is to influence prices, not interest rates.) But men believe (erroneously) that by issuing more money, they can influence interest rates. *Temporarily* they can *if, furthermore, the increase in the amount of loan money is NOT expected by the public.* If the increase is generally and confidently expected, borrowers will in their thinking and planning fully allow for the expected changes in the quantity of loan money; demand will vary accordingly, and consequently there will be little or no effect toward reducing the interest rate. Bankers (central or commercial) can *affect* loan money rates up or down temporarily by doing what the public does not expect. Otherwise, they have *no* influence, because the public effectively "defends" itself against *expected* money and interest rate changes.

We come then, finally, to the *unexpected* action of bankers in regard to interest rates. *It is the role which bankers play in affecting interest rates, as hapless agents of public opinion, which causes booms and depressions.*

V. HOW DOES LOWERING THE INTEREST RATE CAUSE BOOMS?

The purpose of all production is ultimately *consumption.* Work is not for work's sake. Work is designed to supply the material and spiritual goods to satisfy our needs. Work itself is wonderful, but it must have a *purpose,* valued by those who do the work.

The production process, with the pleasure of consumption as its goal, always takes *some* time, and not infrequently a very long time, maybe years and years. The complex of production is therefore a mixture of things which takes varying time to produce, and which are in varying stages of their respective production time. Production can be looked at as a mighty stream.

Human beings (from a mundane viewpoint) control that stream. Some are people-of-the-moment, that is, they make little or no provision for the future. Others are more timorous and are saving, maybe even anxiously, for their own and their descendants' distant future. The former promote the production of *consumption goods only.* The latter promote the production of consumption goods *and of production goods,* known as *capital,* that is, the transformed products of nature which greatly increase the production of human labor but which require more time. (See Volume III, September 1957, pp. 266-297.)

This stream of production, influenced by everybody, may appear chaotic, disorganized, unplanned, but that appearance is misleading. Everything in it *is* planned. Some of that may be unwise, short-sighted, idealistic — but it is planned nevertheless. If we view production as a gigantic stream or complex of events, it is equally necessary to have the vision to see that it is an equally gigantic stream or complex of *plans*.

Producers anxiously watch what their customers (and eventually the consumers) will buy. Every shift in demand is responded to as soon as it is noted. The sagacious producers early note what is happening but stupid producers do so belatedly. Business, therefore, is transferred by consumers to the sagacious operators, who are the people who serve the consumers best, and *consequently* should continue in business. That the incompetent, inexperienced or the reckless are eliminated is not an evil, nor chaos, but a blessing, and is evidence of the valuable groping by finite human beings for what is best for most people.

It is illogical to *interfere* with this production stream — in order to *plan* it. Such *plans* are nothing more, finally, than the program of *one* single finite human mind to plan the whole, instead of letting millions of finite human minds plan it. The millions of minds know more than the one mind. A *central* plan can *never* be so good as the aggregate individual plans of the people. Common men, aggregatively, are smarter than *one* prince; or a committee of economists and statisticians; or a few party leaders.

Plans must be based on facts as well as on motivations and principles, and the facts will be in the form of data. If the data are misleading, then the plans inevitably will be wrong. Is anybody or anything making the figures misleading, so that the planning is wrong? Unfortunately yes, and here is where we come to the interest rate as the disturbing factor.

Let us contrast, for the purpose of explanation, two activities in the production stream — the saving by investors and the use of those savings by business men on the one hand, versus the current consumption by all men. Here is the problem — if something (for example, creation of circulation credit) induces business men to try to invest in capital goods more than the savers will save, two maladjustments will develop — (1) the savers will not save enough for business men to *complete* their attempted expansion of the production of capital goods, and (2) the consumers not having intended to reduce their consumption will insist on consuming consumption goods rather than having "too much" capital formation. The stream of production then becomes unsteady. Not that that stream is unplanned. But it is planned wrongly — too much is attempted to be put into capital contrary to the wishes of the public. Doing that — attempting to put too much into capital formation — can be begun, *but the projects cannot be completed;* the savings and supplies are not there; the consumers will not allocate — set aside — enough of the production stream *for the future* — as the business men have planned *for an erroneous reason.* What may that erroneous reason be?

The natural interest rate is the balance wheel determining the allocation of production effort between the present and the future. The higher the rate, the greater the saving and the greater the production effort that is allocated to the production of capital goods, which will yield their return as consumers goods only in the later future. The lower the rate, the smaller the savings and the formation of capital goods and the greater the production of consumers goods for early use.

What the savers look at as savings, the business man looks at as funds to use in capital expansion. As there are no quotations of the *natural rate of interest,* business men look at the prevailing interest rates for short-term commercial loans and long-term bonds. A low interest rate in those fields signals to them that there are ample funds for capital expansion or, in other words, that savers are allocating much to future goods and are proportionately prepared to abstain from consuming consumers goods. Vice versa, a high interest rate signals to them that there is a short supply of funds which the people are willing to allocate to capital formation, or in other words, that savers are allocating less to future goods so that they may have more for current consumers goods.

The interest rates paid on commercial loans and for bonds are *costs* to businesses. If those rates are *lower* than the natural interest rate, business men will get too optimistic a signal concerning funds available for capital formation. This lower-than-natural rate of interest will be a consequence of an increase in the supply of loan funds. This, as has been explained, will be *temporary,* because goods prices will advance so that the new loan funds are eventually as urgently needed as was previously the case. But *in the transition period from less funds to more,* interest rates will *temporarily* be lowered, especially when those endeavoring to affect interest rates operate unexpectedly.

The manner in which funds are increased and rates lowered consists of a whole complex of intricate transactions which have been developed in financial circles, but the essence consists in this: *more circulation credit is put into the monetary structure.* (For the meaning of circulation credit, see Volume V, August 1959, page 243ff.; and October 1959, page 313ff.)

And so, by making available more circulation credit than previously existed, interest rates — which are important costs to business men — are *temporarily* lowered. Business men *therefore* consider expanding their operations, by investing in more capital formation. The money market rates, which they watch, indicate that the funds are available *at a rate which will make new capital formation profitable.* Why should they not engage in more capital formation, since the interest rate indicates that funds are available and that it is low enough so that the calculations now show that projects (which were previously unprofitable) are profitable. The boom begins.

VI. WHY DO BOOMS, INEVITABLY, END IN DEPRESSIONS, OR IN SOMETHING EVEN WORSE?

But the quoted interest rates are too low for reality. The public does not want so much capital formation; instead it wants consumers goods. What then happens is that the over-expanded industries become unprofitable; employment is restricted; business men are disconcerted and become as excessively cautious as they formerly were excessively optimistic. The bankers begin to look at the situation with anxiety; refuse to make more loans; demand the repayment of loans coming due which look precarious; and in order to ration new loans, they raise interest rates. *Instead of a boom, there is now a depression.*

The alternative to this contraction of business, known as a depression, is *continuously* expanding circulation credit. This is inflationism, worse than a depression.

VII. A SUMMARY, ANSWERING THE QUESTION: WHO AND/OR WHAT CAUSES DEPRESSIONS?

The role of the central bank (in the United States, the Federal Reserve Banks) is a fateful one:

1. As Chart IV earlier in this issue shows, the rediscount rate is regularly *under* the prevailing commercial and long-term rates. Certainly, these rediscount rates are below the natural interest rate, and consequently systematically inflationary.

2. As Charts I and IV show, the rediscount rate varies fantastically; in nine months in 1957-8 it dropped 50%; in the succeeding 17 months in 1958-9 it increased 129%.

This rate policy — in general, too low and fluctuating too widely — is not (in all probability) the will of the members of the Federal Reserve Board, but is a policy imposed upon them by law and politics.

The Federal Reserve System has been assigned the fantastic task of "stabilizing the economy." For this purpose it has only two methods, which are really the two sides of the same coin — putting out more circulation credit (or contracting it), and lowering (or raising) the interest rate. But by these policies, instead of stabilizing the economy, the Federal Reserve Board is a disturbing element in the business situation. By following the course dictated by law and politics, the Federal Reserve Board is *causing* booms and depressions rather than ameliorating them.

It is the *variation in interest and lending policies* which is the cause of booms and depressions in the United States. This is not the fault of the bankers but of the public.

The people of the United States should abandon *completely* the idea that the rate of interest can genuinely be influenced by the quantity of money. Low interest rates are only very temporarily obtainable by issuing more circulation credit. Circulation credit is theft. When issued, it causes booms; when withdrawn, depressions; if continued, it causes inflation, chaos and the collapse of society.

Ideas in the foregoing are derived from the writings of Eugen von Böhm-Bawerk; see his *Capital and Interest;* and of Ludwig von Mises; see his *Theory of Money and Credit* and his *Human Action.* Of course, the writer only is accountable for the foregoing presentation. The subject matter will be continued in future issues.

Present-Day Protestantism Has, Without Realizing It, Laid A "Moral" Foundation Under Socialism-Communism

The Nature of the Problem
The Character of Syllogisms
The Socialist-Communist Ethical Syllogism
Modern Protestantism's Major Premise on Brotherly Love
Bishop Nygren's *Agape and Eros*

The Nature Of The Problem

A distinguished business man some years ago was invited to join an economic society. He asked the president: "Is the society anti-Christian? If so, I do not wish to join."

To that the president of the society replied about as follows:

> The society is *economic* in character; it does not concern itself with religion; nor does it teach morality or ethics; it does not appraise the objectives or aims of men; that is each man's own imprescriptible right; it concerns itself only with the realities of the world around us which affect the welfare of men; and it analyzes whether the *means* which men select to attain their ends are effective and best suited to accomplish them. Our society concerns itself only with the *consistency and logic* of men's thinking about their aims and the means they use to attain them. We call it bad economics if it can be shown that the means are not suited to the declared or obvious ends sought. But whether the ends (for this life or a future life) are valid — *that* is something outside of the field of economics and of the activities of our society. We teach no religion, and we favor no religion.
>
> "However," and the president smiled, "I maybe should add that we have *one* member who considers Christianity the greatest evil in the world."

That reference was, apparently, to an American economist, whose fame is international and who considers what Protestant theologians generally teach in America, in the field of economics, to be intellectually a sad mess, and destructive to a sound economy — something logically indefensible. We are not acquainted with the economist referred to, but if that is his position we are (in the fields of morality and economics) inclined to agree with him. The reason for this is: *the ethics taught in many Protestant churches have become a "moralized" foundation for socialism-communism.*

There are evils which men have traditionally condemned, but nevertheless in weakness have perpetrated and then suffered a sense of guilt. However, others may take a different tack. Whereas originally men (1) considered doing wrong; (2) nevertheless committed the wrong, and (3) suffered a guilt complex — the situation may be radically altered by a basic change in judgment of what is moral or immoral, so that now (1) what was once considered wrong is proclaimed as a virtuous deed; (2) its perpetration is encouraged; and (3) a guilt complex is blandly eliminated.

That is what a strong stream in Protestant thought has accomplished. And that is what the famous economist must apparently have had in mind if the other man's appraisal of his attitude was accurate, "That Christianity is the greatest evil in the world." Not that this economist has evident moral fervour for unalloyed resistance to socialism-communism. But he apparently despises the logic of much modern Protestantism in his own specialized field of economics.

In what follows it is shown how Protestant ethical thought has developed a moral sanction for socialism-communism. Whether it intended that or not does not negate the fact.

The Character Of Syllogisms

Most people are acquainted with the character of syllogisms. A syllogism is a series of propositions by which men help themselves to reach valid conclusions. A standard, illustrative syllogism is the following:

Major Premise: All men are mortal (that is, will die).
Minor Premise: Socrates is a man.
Conclusion: Therefore, Socrates is mortal (will die).

Whether the *conclusion* is correct depends on whether the two premises are true, (1) whether all men are mortal, and (2) whether Socrates is a man. If those are true, then the conclusion, that Socrates will die, is a reasonable conclusion. In the ordinary course of events, known to human experience, this syllogism describes past events correctly, or predicts correctly.

Another often-used, illustrative syllogism, is the following:

Major Premise: All swans are white.
Minor Premise: John's bird is a swan.
Conclusion: Therefore, John's bird is (must be) white.

Again, the conclusion is valid, if the premises are true. It is reported, however, that some swans are black. In that case, the conclusion in the foregoing syllogism is incorrect, *because* the major premise is erroneous.

There are other reasons why conclusions in a syllogism may be incorrect, but the foregoing suffices to show how syllogistic reasoning is helpful for reaching conclusions, that is, *valid* conclusions, *if* the premises are true and properly related.

The Conclusion In The Socialist-Communist Syllogism

The *Conclusion* in socialist-communist thought is:

> From each according to his ability to each according to his need.

If this is really a conclusion in a syllogism, then it should be interesting to discover what the premises in that syllogism are. The foregoing conclusion would stand as follows in the syllogism:

Major Premise: ....
Minor Premise: ....
Conclusion: From each according to his ability to each according to his need is true morality (or true brotherly love, or is the essential ethical principle for right conduct).

It is often a difficult task to find — discover — the two antecedent premises, but it is fruitful to attempt it. When that is done, a man may doubt a conclusion he previously accepted, because he becomes aware that one or both of the premises is false, or that they are not properly related. It will be interesting for readers to interrupt their perusal of this article in order to take a piece of paper, and themselves work out the premises which *must* underlie this socialist-communist conclusion:

The Socialist-Communist Ethical Syllogism

One way to work out the problem is to endeavor to formulate the minor premise first. Here is an attempt at that:

> The rule, *from each according to his ability to each according to his need,* consists in treating men equally, in the sense of ignoring their merits or demerits, that is, to treat them *without any discrimination based on their worthiness.*

Surely, when men are rewarded according to their *need,* and when their need is supplied by the efforts of others, then they are not rewarded according to what their work deserves. Similarly, whenever another by greater effort produces more, which greater production he allocates to others (according to their need), then that harder worker is not rewarded according to his greater performance. There is in the expression, From each according to his ability, to each according to his need, a denial of the right to rewards according to *merit;* the rewards *are,* contrarily, according to *needs.* That is the same as saying that it is not moral to discriminate according to merit.

It is to be recognized that there *seems* to be a different proposition underlying the socialist-communist rule. Literally, it reads, From each according to his *ability,* to each according to his needs. In the foregoing, that has been interpreted as, From each according to his *effort,* to each according to his needs. But in the socialist-communist *theory* there has been no distinction between *ability* and *effort.* In fact, it is not possible to measure accurately whether a greater output results from ability or effort.

So much for the *minor premise.*

It is not too difficult to formulate the *major premise.* This is what it is:

> To treat men equally in the rewards they get in life, that is, without being willing to discriminate between them according to their productivity, is true morality (or true brotherly love, or is the essential principle of right conduct).

We can now put together the two premises and the conclusion in the socialist-communist syllogism, as follows:

Major Premise: To make the rewards (which men are to get) equal, without adjusting them in proportion to their ability and effort, is brotherly love.
Minor Premise: To follow the rule, From each according to his ability to each according to his need, is to make the rewards of men equal without adjusting them in proportion to their ability and effort.
Conclusion: Therefore, to follow the rule, From each according to his ability to each according to his need, is brotherly love.

In still simpler language the syllogism is this:

Major Premise: To refuse to discriminate (that is, to vary rewards according to merit) is brotherly love.
Minor Premise: Socialism refuses to vary rewards according to merit.
Conclusion: Therefore, socialism is brotherly love.

The proposition can be reversed and be made to read:

Major Premise: To engage in discrimination is evil.

Minor Premise: To reward men according to merit (ability and effort) is to engage in discrimination.
Conclusion: Therefore, to reward men according to merit is evil.

The conclusions in these syllogisms stand or fall, depending on whether the major premise is right, whether: *To engage in discrimination is evil.* If that is true, then the morality of socialism-communism is unimpeachable.

In the illustrative syllogism about swans, the major premise was: All swans are white. That statement is not true, because some swans are black. If John has a swan, it is unjustified to deduce that John's swan *must be* white. Similarly if it is not true that, To engage in discrimination is evil, then the conclusion does not follow that to discriminate in rewards (according to merit) is evil.

The crucial question therefore is, what is the soundness of the major premise of socialist-communist ethics?

Modern Protestantism's Major Premise On Brotherly Love

Present-day Protestantism has devoted major attention to defining and proclaiming what it considers true brotherly love to be. Only if the Protestant definition of brotherly love is understood can the relationship of Protestantism to socialism-communism be understood.

Protestantism has a high and exacting definition of brotherly love. An example will be helpful, before giving the general definition, and it will be well to examine first what is declared *not* to be true brotherly love.

A well-treated and generously remunerated employe may have a feeling of gratitude and affection for his employer. This, in ordinary parlance, would be called "love." The employe "loves" the employer in response to good treatment, and because he considers it to be an appropriate attitude. But, according to the present-day Protestant definition of brotherly love, the "love" just described is not genuinely the "love" which the Christian Scripture requires. This employe "loves" his employer *because his employer is good to him*: This is an "earthy," inferior "love." If this employe really "loved" his employer, then even though he received bad treatment from that employer, his affection for the bad employer would nevertheless be equal to what it would be if the employer were very good to him. Why? Because then the "love" would patently be *independent of the merit of the object.* According to this definition, a man does not "love" his employer unless he is prepared to "love" a bad employer as well as, and as much as, a good employer.

Or suppose a young man "loves" a handsome and desirable young woman. He probably would not court an undesirable girl so fervently. His "love" is "self-centered." It is a reflection of his mood to get something *for himself.* When this is called "love," it should be realized to be, so some Protestant divines teach, just what it is, mere *eros* (one of the Greek words for love), that is, love down-graded from unalloyed "brotherly love," so that it takes into account *the attractiveness or the merit of the object. Eros,* then, is a lower grade of "love." It may be natural and it may make people happy, but it is not the genuine article. If "love" of a man for a woman were really the unalloyed article, then a man would not take the merit of a woman, whom he would "take to wife," into account. He would "love" his wife-to-be regardless of her merit. Then he would have more than selfish *eros;* then he would have magnanimous *agape* (another Greek word for love), that is, a nondiscriminating love.

We ourselves appraise women differently. We think *eros* is wonderful relative to the other sex. Imagine a woman who believes her husband "loves" her, *regardless of her merits;* and who believes that her husband would love her as much — or should — if she had no virtues at all. Then she could be comforted that she has his *agape,* his true love, rather than his down-graded *eros,* which is a response, unfortunately (!), to her merits. However, it is worth pondering whether women want *eros* or *agape.*

Agape calls for the type man who has the unadulterated type of "love" which induces him to wink at a girl in the dark, and concerning whom he does not have the slightest knowledge what she looks like or is. *Eros* calls for the type man who winks at a girl after he has appraised her in broad daylight. But then, it is so sad to admit, he will develop no more than selfish *eros,* because he wants her because she has merit or attractiveness.

The derivation of the two words for "love", *agape* and *eros,* is the Greek language used in the New Testament of the Christian religion. Both words are used for love, but the allegation is that there is the difference in the meaning of the two words which has just been outlined.

That there are two words used in the Greek for love and that they have a different emphasis is not surprising. In the English language the expression might be that a man was *infatuated* with his bride-to-be, but ten years later the statement might be changed to: he has a genuine *affection* for his wife. There are many words for love in the English language.

Eros is the term from which the English *erotic* is derived, which refers to passionate, sexual desire. Although this idea is not wholly removed from the idea of *eros* as allegedly used in the New Testament, the contrast between *eros* and *agape* is not essentually between the sexual and the nonsexual. The difference lies in whether you are affected by the object of your love. To have *agape* you must love regardless of the merit of the object; if the existence or degree of your love for an object is affected by the merit or demerit of the object, then you have only *eros,* because there is discrimination, and a vein of selfishness, in such selective love.

The Origin Of The Agape Idea

This idea of "love", covered nowadays by the word *agape,* has an exalted origin, namely, the alleged love of God. God has *agape,* not ordinary *eros.* This idea is related to the dogma of "salvation by grace." This dogma has always been present in the Christian church. St. Augustine (354-430) brought it to the fore in the fifth century. He was known as the Doctor of Grace. The doctrine fitted his own personal needs and psychological make-up.

Augustine, when young, took a mistress for himself. He had at least one son by her. He never married her. His mother wanted him to be *married,* but considered the mistress below her son's station in life. And so they sent the forlorn mistress back from Italy to Africa. In due time Augustine was to marry respectably, a woman having been selected who was approved by his mother. But the loss of his mistress and the waiting for the wife was too much for Augustine, and so he took another mistress. Augustine, possessing an extraordinary capacity for introspection, naturally had a strong guilt complex. And so he needed a lot of "grace" — merciful forgiveness — from God, of which he would be the undeserving beneficiary. God's grace — or love — would be *undiscriminating* — without regard to his (Augustine's) lack of merit. The grace of God, then, is pure *agape*. It goes *beyond* discriminating according to the merit of the object of that love.

Pelagius, a British monk (maybe from Wales), a contemporary of Augustine, had a different psychological make-up. He is reported to have been a man of austere morals and excellent self-control. When he went to Rome he was shocked by the prevalent looseness of living. He emphasized restraint in living. A man with so much less emotional imbalance than Augustine had would naturally keep his definition of the love of God on a more restrained basis than Augustine's. It would be natural for him to be sympathetic to sober living. The unemotional Saxon would view things radically different from the hot-blooded Roman of North Africa. He would emphasize the *rational* aspect of things rather than the *emotional*. He would not need the *agape* idea so strenuously as Augustine needed it.

Augustine's idea of the love of God was reborn in the theology of the Calvinist protestants. According to this theology, God predestines everything — the salvation of some and the reprobation of others. To the agonizing question why some are reprobated, the Calvinist answer is that they are undeserving. But why, then, the election of others to salvation? To this the answer is that they too are *equally* undeserving, but that God according to his sovereign privilege *without taking into account their merit* — because they intrinsically have no more merit than the reprobates — elects them to eternal salvation. Both reprobates and elect being equally undeserving, the fact that the elect are elected is evidence of an *undiscriminating* selection — a selection not made on the merits of those elected. God's love to the elect is therefore, pure *agape*, love manifested regardless of and independent of and unrelated to the merit of the object. This is *sovereign grace*. And human *agape*, toward other human beings, is supposed to be of the same character — *undiscriminating* love.

This Calvinist doctrine has, however, never been popular. Many may belong to so-called Calvinist churches, but outside of ecclesiastical environment they disclaim acceptance of the doctrine: that is, they usually disclaim it if they know what the Calvinist doctrine is; (many, naturally, do not).

The trouble is that the *agape* of God toward the elect does not solve the absence of *agape* of God to the reprobate. The problem therefore is not "solved" in the minds of most people who profess Calvinism. Even orthodox Calvinists are hard pressed to round off the corners of this doctrine, as is evidenced by the doctrine of Common Grace, still discussed and accepted by people who appear to be confused.

The *agape* idea then comes down in the Christian era (1) from the Apostle Paul, (2) via Augustine and the Reformers, especially Calvin, to (3) the modern age. The unique thing that has been added in the twentieth century is that the *agape* (love) of God to the elect is the pattern which men must universally show to each other. God has *agape* toward the elect; therefore, so the reasoning goes, men must have similar *agape* toward each other.

There is an important difference. God has *agape* to the elect *only*. But men must have *agape* to all men. The modern *agape* doctrine requires that men outclass God in the possession of *agape,* that is, *undiscriminating* love.

Bishop Nygren's "Agape and Eros"

Agape, as *nondiscriminating* love, or *unmotivated* love (as it is also described), is explained in greatest detail in Bishop Anders Nygren's book, *Agape and Eros* (English translation, Westminster Press, Philadelphia, 1951). Bishop Nygren is one of the two leading theologians of the theological faculty of the state University of Sweden, located at Lund, Sweden. His background is Lutheran or Evangelical.

The ideas in Nygren's book dominate alike nonconservative and conservative thought in the field of ethics in the present-day protestant religious world. A foreign delegate to the meeting of the World Council of Churches, in Evanston a few years ago, commented in private conversation enthusiastically about Nygren's book. That man personally is a conservative, and orthodox in religion. But the most unconservative clergy of the Protestant churches are equally enthusiastic about Nygren's *agape* doctrine. Nygren, in fact, is the real ethical "prophet" among modern Protestant theologians.

In his *Translator's Preface* to the English edition of *Agape and Eros,* Philip G. Watson writes (pages viii and ix):

> Eros is an appetite, a yearning desire, which is aroused by the attractive qualities of its object; . . . *Agape* . . . is entirely independent of external stimulus and motivation.

> [God's] . . . loving consists not in getting, but in doing good.
> *Agape* is further distinguished from *Eros* in that it is "indifferent to value." That is to say, it is neither kindled by the attractiveness nor quenched by the unattractiveness of its object. . . . man can show [*agape*] towards his fellow-men. . . . This freedom of Agape-love in relation to its object is the main point when it is said to be "indifferent to value."

The definition of *agape* by Nygren, and by those who accept his ideas, is an ethereal definition. The standard is unearthly: you must love everything *equally,* overwhelmingly, *regardless of relative merit,* wholly *undiscriminatingly.* In short, *all discrimination is sin,* and falls short of the Biblical requirement of brotherly love.

Such is the basic "morality" of much of modern Protestantism. It is declared to be scriptural, or more accurately, New Testamental. The fact, however, is that it is neither moral nor Biblical. It is a form of irrationalism. What is probably its greatest deficiency is that it burdens Christianity with so heavy a requirement of sanctity. Not without reason is religion in contempt among many intellectual people. Not without reason does the economist to whom we have referred earlier accuse Christianity as being the most harmful thing in the world.

Some people take exception to emotional fervor in connection with conversions. Whatever objection there may be to that, it is a trifle compared to the exception which may legitimately be taken to the fundamental ethical proposition of modern Protestantism, namely, that *to discriminate is sin.*

The only thing that can be said for this doctrine is that it is "modern." No equal ethical extravagance has been taught until this twentieth century.

There was a day when the morality of socialism-communism was considered to be irreconcilable with the ethics of Christianity. That idea was undoubtedly correct, but it has been abandoned. Instead, Protestant Christianity has obligingly supplied the socialists-communists with the required major premise in their ethical syllogism, to wit, *to discriminate is sin.* To show the relationship most clearly, it is simplest to cast the syllogism in this form:

Major Premise:	To *not-discriminate* is true brotherly love.
Minor Premise:	To follow the socialist-communist rule, From each according to his ability to each according to his need, is to *not-discriminate.*
Conclusion:	Therefore, From each according to his ability to each according to his need, is true brotherly love.

The major premise, despite its origin, is *false.*

Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensible supports. In vain would that man claim the tribute of patriotism, who should labor to subvert these great pillars of human happiness, these firmest props of the duties of men and citizens.

—George Washington

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