

FIRST PRINCIPLES

In Morality and Economics

Volume VI*

1960

NEOCLASSICAL IDEAS ON
GOODS, VALUE, PRICE, INTEREST AND
EXPLOITATION

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- 1955 *Essays Against Sanctimony And Legalized Coercion*
- 1956 *Essays On The Peerless Mosaic Law*
- 1957 *Harmony Of Morality And Economics*
- 1958 *Neighborly Love And Ricardo's Law Of Association*

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- 1959 *Moral Aspects Of Money, Banking And The Business Cycle*
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FIRST PRINCIPLES IN MORALITY AND ECONOMICS

on which depend personal well-being and social health and harmony

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VOLUME VI

JANUARY, 1960

NUMBER 1

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On Beginning Our Sixth Year

With this issue we begin our sixth year.

For the first four years this monthly was published under the title, *Progressive Calvinism*, but that title was criticized by non-Calvinists, on the ground that it claimed for Calvinism what was not restricted to Calvinism; the critique was, in effect, that the title was parochial, but that the contents were not.

Therefore, the title was changed in the fifth year to *First Principles in Morality and Economics*. In conformity to the change in title, further specifically denominational material was withheld. In that regard there has been a change in content as well as in name.

Immanuel Kant declared that for a moral law to be valid it had to be *universally applicable*. That is the aim of the morality taught in *First Principles* — that it be valid for a Confucianist,

Buddhist, Mohammedan, Hinduist, agnostic, atheist, or Judaist, as well as for a Christian, whether Catholic or Protestant. But not only is the approach herein based on the morality taught in the Hebrew-Christian Scriptures, *consistently interpreted*, but it is also unfeignedly the approach of orthodox Christianity, in religion as well as in ethics.

As readers also know, the economics taught herein are those of the *Neoclassical* school. This means that our economics are based on the work of Adam Smith and David Ricardo, but modified (as it urgently needed to be) according to the work of William Stanley Jevons, Carl Menger, Eugen von Böhm-Bawerk and Ludwig von Mises. It is especially the economics of the latter three, the outstanding exponents of the famous Austrian school of economics, which is followed in *First Principles in Morality and Economics*.

The economics of those men are consistent with the morality of the Hebrew-Christian religion (probably without that being their specific intention, because they were writing as scientists).

Current issues of *First Principles* are, unavoidably, not always readily understood *unless the earlier issues have been read in sequence*; but then the reading should be easy. Paperbound copies of the first five years are available at three dollars a year. Those who are interested in following the presentation carefully should consider having access to the earlier issues.

Popular religion is guilty of many "extravagances" — exaggerated propositions — and much of modern economics is confused. Our aim is to promote morality and economics, so that there may be universal personal well-being and social health and harmony. The patience of our readers is petitioned in the many instances in which we fall short of attaining those objectives.

Although There Are Fewer Rich Than Poor, There Are More Creditors Than Debtors

Because there are fewer rich than poor, the common inference is that there are also fewer creditors than debtors. But the infer-

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ence is erroneous. Creditors outnumber debtors. It probably should be added that the error is a natural one.

1. Everybody who carries life insurance directly or in a group life insurance plan is a creditor. He himself or his heirs will receive a future insurance payment. His right to it makes him a creditor, and he looks upon himself as a creditor, because *something is owed to him in the future*. He, or his employer, currently makes the required premium payments to the insurance company. The insurance companies, few in number, are really debtors of mountainous size with a large number of creditors, their policyholders. It is readily conceded that the capital of the stock insurance companies is owned by their shareholders, but companies have many, many more policyholders than stockholders.

2. The building and loan associations have many debtors. Maybe the average debtor to a building and loan association owes the association \$5,000 on a mortgage loan. But the average savings amount deposited by savers in building and loan associations will certainly not be \$5,000. Maybe the average is closer to \$500. On that basis the creditors of the building and loan associations (the depositors) outnumber the debtors of the association (the borrowers) 10 to 1.

3. The banks appear to many to be powerful and rich creditors, and they are. There are big stockholders in banks and also big debtors to banks. But here again the creditors outnumber the debtors because banks have thousands of depositors. Every depositor, as depositor, is a creditor of the bank. It is true that the deposits of *some* depositors consist of borrowed money, but these are only *some* of the depositors. But *every* depositor is a creditor. Because the category, *every* depositor, must exceed in number the category, *some* depositors, here too the creditors outnumber the debtors and very greatly.

4. In a sense, every person who possesses money, in his purse or in the bank, or who has a future "call on dollars" owed to him at a future date, is a creditor. The money which a man has in his "stock of money" for emergencies, or to use until his next payday, is a claim against future goods. The sixty dollars a man has in his pocket with which to buy a suit of clothes makes him a "creditor," in a sense, againse society. He is a "creditor" until he surrenders the money for the suit.

* * *

Politicians make a spectacular error when they hold the opinion that the number of creditors is no greater than the number of rich. If they *think* that they are helping the larger number of their constituents when they (the politicians) favor inflationary measures, they are in error. For a politician to favor inflation is to favor the minority of his constituents (debtors) at the expense of the majority (creditors).

The favoring consists in making it "easier" for debtors to pay their creditors, or in other words, to adopt policies which raise prices. Doing this consists in issuing more and more money for one or another reason. Increasing the quantity of money raises prices. When a debtor borrows, he can buy (say) 400 bushels of wheat with the \$1,000 that he borrows; the price of wheat is \$2.50 a bushel. But when the debtor must pay back the \$1,000, then the price of wheat — because of inflationary policies of politicians — may be \$5 a bushel. Then the debtor needs to produce only 200 bushels of wheat to pay back the 400 bushels he originally borrowed. The debtor has thus been greatly aided.

Inflation is immoral; it violates the Eighth Commandment, Thou shalt not steal. But it is also unjust; it usually helps the rich more than the poor. It would also be theft and unjust if it helped the poor more than the rich, but there is a peculiar heinousness about helping the rich against the poor, and the strong against the weak. Who is there who will feel at liberty callously to defend it?

* * *

The error which consists in confusing the rich with the creditors is not peculiar to politicians. The politicians merely reflect public opinion, and the prevailing *public* opinion is that inflation helps the many poor and hurts the few rich. The public would do well if it stopped confusing the rich with creditors, and if it came to a clear awareness that inflation hurts creditors and that the creditors are practically everybody.

The Hebrew-Christian Scriptures correctly describe (repeatedly) what is occurring in this inflation confusion. The program of the "public" is to hurt the rich by inflation, but they really hurt themselves. The Hebrew-Christian Scriptures say: "Whoso diggeth a pit [for his neighbor], shall fall therein [himself]." (Proverbs 28:27a) A classic case of this is inflation-

ism. When the "public" digs a pit, by inflation, for the rich, they (the members of the public) fall into the pit themselves as *creditors*.

The Full Meaning Of Socialism Is Not Easily Understood

Definition of *socialism* in a dictionary or an encyclopedia, despite accuracy and length, will not reveal the full and varied meaning of *socialism*. The writer was troubled for years with uncertainty about its exact meaning; he at that time knew that he did not know what he should know. Even after he eventually thought he understood what the term, socialism, means, he has progressively discovered that his understanding was not yet complete. New phases and implications have almost regularly come to his surprised attention. Others may have similar problems and difficulties.

The contrasting term to socialism is *capitalism*. Some might say that the contrasting term is *liberalism* in the old sense, namely, maximum freedom of individuals (except no freedom to do wrong).

When a number of liberals (or capitalists) get together, it is not long before some suspect that the others are tainted either a little or seriously with socialism. The question which naturally arises is: are there half-breed socialistic-capitalists, and capitalistic-socialists? In a special sense, there are such people. This is readily explained.

There are socialists who are so only in a *production* sense; there are also socialists who are so only in a *distribution* sense; and there are socialists who are socialists in *both* senses.

Those who are socialists in a *production* sense believe that the organization of society should be planned and controlled *centrally*. They do not admit that the consumers, as a multitude, should control production, because then there will be "chaotic competition." Socialism, in this case, is a definite system for "ordering society." Such socialists believe a centrally controlled system is more productive and orderly than a market-controlled system, wherein the individual consumers are sovereign. Socialists of this type are not necessarily opposed to disparities in income. They have their eye focused on *control* rather than on *money*. *Power* rather than *profit* is their goal.

In contrast, those who are socialists in a *distribution* sense have their eye focused on the *money* and not on the *control* phase. These socialists do not insist on central control of production. They may even believe, genuinely, in a market economy. They may be convinced that a free market and private ownership of capital increases production. Therefore, they are for a free-market system, and may be as much opposed to government controls as are genuine liberals or capitalists. How then do socialists of this type keep their eyes focused on *money*?

The term *distribution* in this connection refers to what each participant in the economic process gets; it refers to *how* the production is divided — *distributed* to each participant as his share of the proceeds.

Imagine a small society *organized* on a free-market basis as these socialists wish it to be. Every man does his best under the incentives created by the free market. Self-interest spurs the citizens to be active and productive. The community is consequently prosperous. But then "socialism in distribution" steps in. A steeply graduated income tax is applied. Mr. X who, under the stimulus of the free market, had undertaken great risks, performed great services in production and marketing, and who as his part of the proceeds received \$50,000 for his achievements, is now taxed by progressive taxation so that he retains say only \$10,000. Mr. Y who for less effort, less skill, less risk and less production had earned \$20,000 is taxed so that he, too, earns \$10,000 net. In other words, the *socialism*, the equalization, *enters the economic structure only in the distribution phase*.

We have referred in an earlier issue to a mayor of a big city who was a "distribution socialist" only, but he travelled, openly, under a socialist label. In a serious labor dispute between a corporation and its employes, the mayor boldly took the side of the corporation. He did not want union pressure to be used against the management. He wanted the management to run the business for profit only, untrammelled by other motivations. He was sure that that was the way society should be "ordered" or organized, because it resulted in the greatest production and prosperity for the citizens of his city. But how, then, was this mayor a socialist? Certainly he was not a socialist in the production sense. But just as certainly he was a socialist in the distribution sense, *because he*

avored income taxes which finally would level income. He was a socialist in taxation, in a *money* sense, rather than a *control* sense.

The trouble with this latter idealistic scheme of theoretical socialists is that it will not work. It assumes that men are fools. It assumes that they will continue to work furiously hard even when they know that the extra reward for extra labor will be taxed away. Such men, it is assumed, will run like jack rabbits after a carrot, as if not realizing that their achievement will not benefit them, because of the fact that just when they are ready to consume the reward, it is taken away from them.

Maybe the combination (1) a free-market system of production plus (2) socialism in distribution is the most *corrupting and impoverishing* type of socialism that there is. It first pretends incentives, but destroys them in the second step. The citizens will soon be wholly disillusioned.

Russian socialism is maybe mostly of the production type, and consequently cruel and oppressive. There is *central control* in Russia. But it is also alleged that rewards in Russia are variable and that incentives are being more and more used to increase production. If that is true, then the distribution aspects of socialism in Russia are less in effect than are the *production* aspects.

Probably in the recent experiment in England with socialism, the production aspects have not been so prominent as have been the distribution aspects. The British have been taxed severely. The United States also is a semi-socialist society in a distribution sense.

A thoroughbred socialist is one who believes (1) in *central control* of production, and (2) in *equal* distribution; both.

A thoroughbred capitalist is one who believes (1) in a free market, and (2) variable income distribution in proportion to productivity and service; both.

But there are half-breed socialists and half-breed capitalists.

When unable to classify some friend of yours about whose ideas you are uncomfortable, because you think they are left-wingish, give some thought to whether he is off-base in your estimation on the ground (1) that he favors some form of *central control* rather than a free market, or (2) that he is an equalizer of incomes and a discourager of incentives by *progressive taxation*. Both (1) and/or (2) are aspects of socialist thought.

Some Inquiries About The Business Outlook In 1960

The Stock Market And Business

If a man really believes business will improve, his next thought is how to cash in on the idea. About his first recourse is to buy some stock, either of his own company or a similarly situated company, and "make a profit" from the probable rise in the price of the stock, which rise should occur because of a prospective improvement in business.

But if a man really believes business will deteriorate, his next thought will be how to reduce any loss to himself. If he owns stock, he will give consideration to selling it before others do and before the price will go down.

The New York Stock Exchange is, therefore, a sensitive barometer of the expectations of business men. It is an institution where business men reveal, or betray, their most private thinking. There are, naturally, also routine investors, buying and selling stocks, without much knowledge what it is all about. But offsetting these novices, there are also experts who do nothing except buy and sell stocks—for an attempted profit (but which may turn out to be a loss).

The New York Stock Exchange is probably the *greatest market* that has ever existed in this world. It is a place where big and small, wise and foolish, trade. By their actions there, they reveal their resources and their needs, and what they really expect under the circumstances.

But *cause and effect* are intermingled on the New York Stock Exchange. Grant that opinions "outside of the market"—opinions of a country banker, or a farmer, or an industrialist, acted upon by them—influence the trend of the market. But, in a reverse sense, the trend of the market influences their thinking. If the market "booms," people tend to become optimistic, and they begin to buy too, making the market go still higher. If the market declines, people become pessimistic, and they begin to sell too, making the market go still lower.

* * *

Illustrations of the effect on business of the trend of prices on the New York Stock Exchange are not hard to find. In the

latter half of 1957 and the early half of 1958 prices on the New York Stock Exchange declined severely; in many cases, quotations were 40% under those of a year earlier. What was one of the consequences?

A business man, who in the summer of 1958 saw his company's stock selling for \$60 which a year earlier brought \$100, was probably no longer expansion minded. A business man who had hoped to expand, and finance the expansion by selling additional stock at \$100 per share, only to find that when he thought he was ready he could get only \$60 per share, would almost certainly abandon his plan. Such decisions lessened construction activity in 1958. Companies in 1958 in the construction industry generally experienced an unsatisfactory year.

Nevertheless, at the end of 1958, *because of inflationary action of the monetary authorities*, the stock market was much higher than at the beginning of the year.

* * *

In 1959 the market, *as a whole*, declined somewhat. The limited number of stocks in the Dow-Jones Industrial Average do not reflect the whole market well. A more reliable index is the market value of the larger number of underlying securities in large investment trusts, such as United States & Foreign Securities, Tricontinental Corporation, Adams Express. The trend of the market value of the broader lists of stocks held by companies of this type are evidence that the stock market did not boom generally in 1959.

* * *

This brings us to 1960. The market may boom in 1960, or it may decline severely. We shall consider only *one* factor which will influence the market. This is probably as important a single factor as any, but it may be overwhelmed by other factors also of importance. The factor we shall consider is the *interest rate*. By interest rate we here refer to the *loan money rate*. For purposes of definiteness, we select the interest rate on *prime commercial loans*. The rate is currently 5%.

The loan money market is "tight enough" so that banks *insist* that borrowers carry cash balances equal to 20% of the loans. That means that borrowers can actually use only 80% of

the loan. That being the case, the *real* cost to the banks' best customers who are the *prime* borrowers, is (5.00% divided by .80 or) 6¼%. For borrowers of less financial strength than the prime borrowers, the rate will be more than 5%. Probably the average customer pays one-half percent over the prime rate, or 5½%. If 5½% is divided by .80, the real rate is 6.875%. Money that costs that much is expensive.

The "smart money" on the New York Stock Exchange will give serious consideration to the prevailing interest rates, and the probable trend of those rates.

The stock market has never been able to *continue long* to make headway against a tight loan money market and high interest rates. The question is: what constitutes a *high* interest rate?

The Effect On Business Of The Ratio Of Commercial Loan Rates To The Natural Rate Of Interest

What is meant by the natural rate of interest was explained in considerable detail in the preceding issue (December 1959).

The natural rate of interest is *not* controlled by the ratio between selling prices and costs; nor by the productivity of capital; nor by the quantity of counterfeit money, in the form of circulation credit, injected into the monetary structure. The natural rate of interest is neither a production nor a monetary phenomenon, but a psychological phenomenon — to wit, the amount of the discount that people apply to future goods as compared to present goods. (See the December 1959 issue.)

For the natural rate of interest we semi-arbitrarily used the figure of 5%, and put the probable range at between 4% and 6%, and the extreme range between 3% and 7%. There are, as was indicated last month, no quotations on the natural rate of interest. It is a reality, but it is not recorded.

The natural rate of interest is the rate at which the general public is willing to reduce current consumption so that capital be accumulated. And the general public will certainly have its way on this subject. Its opinion in this respect is massive, monolithic, decisive — eventually.

The natural interest rate controls the eventual return on capital. If that rate is 5% (the figure here being used), but if the cost

of money in the money market is almost 7%, then whoever borrows at that rate runs some hazard that he will be squeezed between the 5% natural rate which he can "earn" if he is an average operator and the almost 7% money rate which he contracts to pay.

High money rates are a headwind for business. Low money rates are a tailwind for business. The owners of "smart money," buying and selling in the New York Stock Exchange, are well-informed on that fact.

The trend of money rates in 1960 will therefore eventually, if not soon, have an effect on the trend of the stock market and of business.

The Feebleness Of Governments When Fighting Economic Law

The United States is "off" the gold standard. It is illegal for citizens to own gold. But the power of a government does not go beyond its borders, and so, whereas the United States is *domestically off* the gold standard, it is nevertheless *internationally on* the gold standard which will control the course of events.

For two reasons the United States is currently losing gold:

(1) Because it is giving away annually about 4 billion dollars in foreign aid: and

(2) Because some other countries have slowed up their rate of inflation, especially countries in western Europe, whereas we have not slowed up inflation in the United States in a parallel degree. They export more; we export less; we therefore lose gold.

These two causes for losing gold will soon have to be recognized by the people of the United States, and it may be expected that both these policies will, again later if not soon, certainly have to be reconsidered and changed. The "do-gooders" and the inflationists in the United States will have to bow to *economic law*, which is something which is not controllable by citizens nor statesmen.

* * *

The trend of the gold stock in the United States is shown in the following chart. Between December 31, 1957, and December 31, 1959, the decline in our gold stock was \$3.325 billion. The average rate of decline in those two years was \$138 million

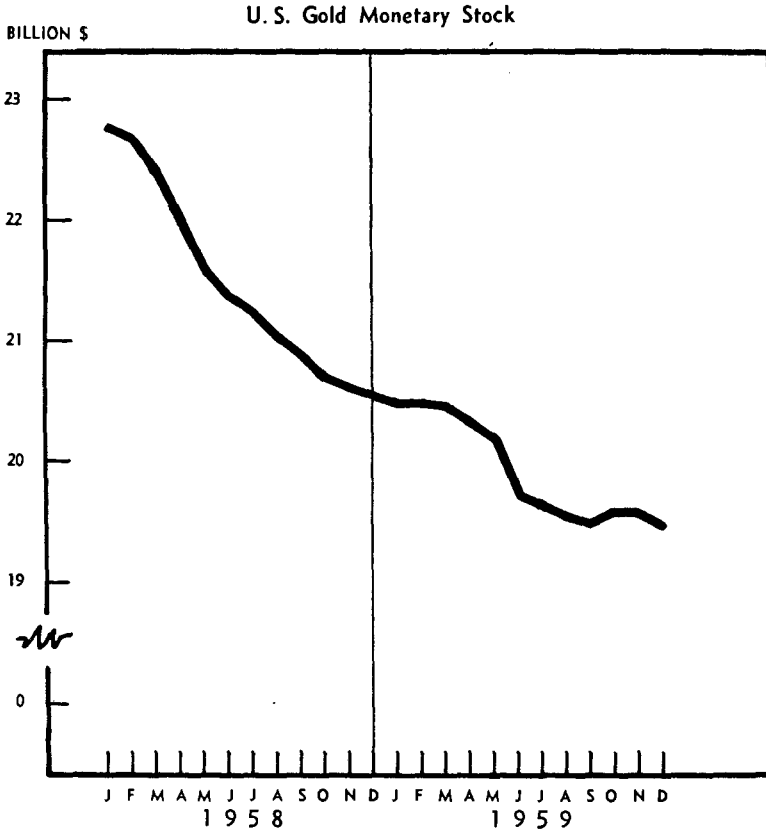
per month. The following table shows the gold stock figures and the monthly changes.

	U. S. Gold Monetary Stock (Million \$)	Increase (+) Decrease (-) (Million \$)
1957, December	\$22,781	
1958, January	22,784	+ \$ 3
February	22,686	— 98
March	22,394	— 292
April	21,996	— 398
May	21,594	— 402
June	21,356	— 238
July	21,210	— 146
August	21,011	— 199
September	20,874	— 137
October	20,690	— 184
November	20,609	— 81
December	20,534	— 75
1959, January	20,476	— 58
February	20,479	+ 3
March	20,442	— 37
April	20,305	— 137
May	20,188	— 117
June	19,705	— 483
July	19,626	— 79
August	19,524	— 102
September	19,491	— 33
October	19,585	+ 94
November	19,566	— 19
December	19,456	— 110

Although citizens may not own gold, the Federal Reserve Banking system, under which we live, requires that the banks maintain gold reserves in a certain ratio to their loans and discounts. This has a bearing on the business situation.

This Country's Stock Of Gold And The Loan Money Rate

Because (1) the United States has a fractional reserve monetary structure (only about one dollar of gold is needed behind each five dollars of commercial loans), and (2) because the United States is steadily losing gold, therefore the quantity of loans outstanding is subject to a "leverage," forcing a severe shrinkage of loans, all other things being equal. (Of course, all other things are never equal, but this is a digression from the present analysis.) That means that, if one million dollars worth of gold is exported, loans must shrink at least five million dollars, *ceteris paribus*. With the population of the country growing, and with the strong



inclination to expand which is habitual in this country, a shrinking supply of loans inevitably results in a tighter loan money market; consequently, the loan money rate, which is the rationing device to allocate the supply where it is most wanted, is firm and has been rising. Only those businesses which are able, because of favorable circumstances and skillful management, or those businesses whose management suffers from optimistic hallucinations, will consider themselves willing and able to pay for relatively costly loan money. The others drop out, because the rate is too high for them. They, of course, reduce their operating and expansion programs accordingly. When they "cut back," their earnings are likely to decrease; when earnings decrease, the shares of the various companies look less attractive as investments, and their prices go down.

The facts outlined in the foregoing mean this: *inflationism in the United States is presently again hitting an important barrier, namely, high loan money rates. Depending on when and how that is resolved (be it by sound or unsound monetary methods) the activity of business and the trend of markets will be affected.*

The Possibility Of Further Inflation

We have been looking at only one phase of the business outlook in 1960. The analysis presented is not comprehensive, and there are no conclusions or "forecasts." There are many ways to "inflate" more. The motivation to inflate is especially strong in an election year. Under such circumstances, it is possible to lose gold, but nevertheless increase loans (circulation credit), because reserve requirements are eased; or the gold loss may end because countries abroad might generally begin to inflate faster than we are in this country; or we may reduce foreign aid; etc., etc.

But not everything is rosy for 1960, even if sound policies are re-established. A mere transition from unsound policies to sound policies itself would cause adverse results during the transition.

The Good Fortune That Interest Has Two Meanings, One Narrow And The Other Broad

When a layman in economics speaks of *interest* he means interest on *money loans*. This is the narrower definition of interest.

When a professional economist speaks of *interest* he may mean in a specific case the same as the layman means, but it is possible that he refers to interest in the broad sense. Then he refers to *all income other than remuneration for labor*. This means that *interest* includes (1) rent on land; (2) earnings on stocks; (3) interest on money. (See the December 1959 issue.)

A socialist would agree with the professional economist and say that that broad definition defined *interest* as being *all unearned income*. After some thought, a socialist may be pleased that economists look upon interest in a generic way; he may say to himself: "I am opposed to all income *except income on labor*. I am against such other income whether it is called *interest* or whether it is called *unearned income*. But I prefer to call it unearned income. The word *unearned* helps me challenge such income."

The term, *unearned income*, which is universally in use should be abandoned, and *interest* should be substituted for it. The term, *unearned income*, sounds bad semantically. The spontaneous reaction to the idea of unearned income is: why should anyone be entitled to *unearned income*?

The word *unearned* is a misnomer, because the fact is that land does not *earn* rent; that capital does not *earn* profits; that money does not *earn* interest, in the sense that any of these puts forth effort or obtains a return commensurate with its *productivity*. *There is, hard as it may be to believe, no causal relation between physical productivity of land or capital with interest.* An illustration will make readers aware that that is true.

Certain machinery may make labor ten times as productive as it was previously without the machinery. One machine with one man to operate it may yield what otherwise required 10 men to produce. Let us assume the machine costs \$10,000. Let us assume the annual wage of each of the ten men is \$5,000. Together, their wages are \$50,000. After the machine exists, the owner of the machine only pays one man, that is, he disburses only \$5,000 and of course his machine gradually wears out (depreciation) and must be replaced. Does the owner retain almost \$45,000 for the production of the machine (an amount equal to the saving of the labor of 9 men, but less depreciation)? If so, his return would not be the ordinary 5% or even 10 or 15% on capital, but would be almost 450% (\$45,000 divided by \$10,000 or the cost of the machine, less depreciation). Now everybody knows that such returns are not realized in business, or if so, they are extremely temporary; or else the man who has the machine has an absolute monopoly.

Something altogether different from *productivity* or *use* must therefore be found to explain *unearned income* or *interest*, whichever word is used. That something is the *discount for time*. The man who owns land, or capital, or money which he relinquishes to others *loses the opportunity of the present consumption* of what he loans out, and he must wait until the land is sold, or the capital is depreciated or sold, or the money is repaid. And because universally (for all practical purposes) men regard a future good as worth less than a present good, they demand that something be added to the future value to make it worth the present value.

In order to convert the value of \$1,000 a year from now into a present value, men divide the \$1,000 by 1.05 (or by some other divisor) and obtain \$952.38. In other words \$952.38 today is worth \$1,000 a year hence. If a man relinquishes \$1,000 to you today as a loan, or an investment, he wants \$1,050 back a year hence; to make what he gets back *in the future* equal in value to him for what he relinquishes now he insists that \$50 (or another amount) be added to the \$1,000 he loans or invests.

Now the good fortune that derives from calling all income (under competition) other than the remuneration of labor, *interest*, consists in this:

1. That there is recognition of the *common* underlying *cause* of this income, namely, discounting for time;

2. That the word *interest* does not have the unfortunate semantic implication that *unearned* income has — and neither *earning* nor *productivity* has finally anything to do with this income. *Productivity*, in relation to interest, is *irrelevant*; and finally,

3. That those individuals who erroneously believe that the Hebrew-Christian Scriptures forbid interest become aware that they are obviously inconsistent when they fail to distinguish interest in the narrower sense and interest in the broader sense. If Hebrew-Christian morality were against interest in the narrow sense, it would (in order to be consistent) also have to be against rents and profits, that is, interest in the broader sense. We know no one who declares that the Hebrew-Christian Scriptures are against either rent or profits. But when it is obvious that rent on land, profit on capital and interest on money are really the same thing, then one must be *for* or *against* all three.

What About That Frequent Statement, "You Cannot Say One Economic System Is More Christian Than Another"?

In pulpits and in the press the statement is occasionally heard, "You cannot say one economic system is more Christian than another."

In Western countries that statement appears to be a disguised attack on the prevailing system, namely, on capitalism.

Nobody can be morally indifferent to the "economic system" under which he lives. No man can escape taking a position in

regard to economic systems. The reason is obvious. Economic systems differ; one system is right or at least better; another system is wrong or at least worse, or vice versa. The great controversy of the age pertains to economic systems.

There are degrees of differences between these systems, but the basic issue is between capitalism and socialism-communism. If capitalism is right, socialism-communism is wrong.

Neither convinced socialist-communists, nor convinced capitalists ever talk about an economic system being morally indifferent. Traditionally, capitalists have execrated socialism-communism; and zealous socialist-communists curse the capitalist system. It is the confused or the insincere who say, "You cannot say one economic system is more Christian than another."

The two systems, capitalism and communism, can be easily contrasted:

Capitalism	Socialism-Communism
1. Private ownership of property	1. No private ownership of property
2. Free exchanging of property	2. No free exchanging of property

What does the Hebrew-Christian Scripture teach on these two subjects?

Scripture does not dispute the morality of the ownership of private property. Such ownership is protected by the commandment, Thou shalt not steal. Capitalism is in this regard based on Scripture.

In regard to the second basic characteristic of capitalism, namely, free exchanging of property (known to economists as a free market economy), capitalism again has the support of Scripture. The *free* exchanging of property has this fundamental characteristic — it agrees with the Sixth Commandment, which forbids violence and coercion and compulsion by one man or another, or a group of men on any of its members or nonmembers. People under capitalism *voluntarily* make exchanges according to *their own choices*. This is what the capitalist system requires. The Sixth Commandment, Thou shalt not coerce, is the cornerstone under the *free* market.

But socialism-communism professes the contrary principle, namely, compulsion. You may not own property, and of course

then you may not voluntarily exchange it; compulsion, coercion, regulations, laws, restrict choices in practically every aspect of life.

If there is anything Moses and Christ taught in regard to this life, it was that the members of a society were not to be coercive toward each other. The only coercion they permitted in their system was the coercion needed to restrain positive evil—murder and violence, adultery, theft and fraud, falsehood, and covetousness.

Capitalism, then, is founded on the Sixth and the Eighth Commandments. Socialism-communism is opposed to the Sixth Commandment and in effect annuls the Eighth Commandment. How then can people say, "You cannot say one economic system is more Christian than another"?

A "Mechanism" Through Which The "Wrath Of God" Operates In Economics

The Hebrew-Christian religion, which is the dominant religion in the so-called Western world, teaches that there is a "wrath of God" against evil. The question arises how the "wrath of God" can be effective against evils which are perpetrated by governments. We have in mind the evil of circulation credit which is a public or governmental evil.

Certain forms in which the "wrath of God" can be manifested immediately suggest themselves: (1) A natural calamity as famine, plague, earthquake, and other catastrophies; (2) A scourge in the form of a hostile foreign power, which will devastate and oppress the country guilty of an evil; (3) The enervation of the character of the citizens, or the general deterioration of their moral fiber. The Hebrew-Christian Scriptures record instances in which these forms of the "wrath of God" have manifested themselves.

But there is an additional form by means of which the "wrath of God" is manifested. The specific problem to which we address ourselves is: *How or in what form* does the wrath of God manifest itself as a penalty against the issuance of circulation credit, which is the cause of the business cycle.

* * *

In matters pertaining to the wrath of God, the question arises whether God always works through means or whether He sometimes operates directly. The better answer appears to be that *all*

of the dealings of God with men are *through means*. The three items listed in the foregoing are *means* through which God might manifest His wrath.

In matters pertaining to the natural world, men have come more and more to the acceptance of the idea that there are unchangeable natural laws (except in the case of miracles), for example, changes in weather are now considered to be explainable by physical laws; similarly in the case of contagious diseases. In a general way men expect these laws to continue in effect and coerce men into obedience or grind them to destruction.

This acceptance by men of the invariability of natural law is not matched by a corresponding acceptance in the field of morality and ethics. The consequences of disobedience of the moral law are by no means so invariable nor so prompt as are violations of physical law. Consequently, as Solomon said, "Because sentence against an evil work is not executed speedily, therefore the heart of the sons of men is fully set in them to do evil" (Ecclesiastes 8:11). In modern English, the idea expressed in the quotation is that: because the penalty for unethical conduct is not prompt (as in the natural-law field), therefore men think it is not unprofitable for them to engage in evil; they hope to escape consequences or that the consequences will be long delayed.

Possibly a physicist would be able to formulate the most fundamental law of physics on which other physical laws, in the final analysis, depend. If that is possible, it becomes interesting to search for the fundamental law, in the social-science field, on which the moral law rests. If that fundamental law existing in the very nature of things and underlying the moral law can be stated, then it will be possible to understand the reason why the moral law cannot be violated without there being a penalty, in the same way that a fundamental law against sanitation cannot be violated without there being a penalty.

* * *

The fundamental law in the social sciences and in morality is that men will *pursue their self-regarding interests* and *their own self-preservation*. Everything alive has in itself something which strives for its individual welfare and the continuance of its life. An elm tree ordinarily develops spreading branches close to the ground. But an elm tree whose misfortune it is to be situated

just north of a high bridge, and consequently which is out of reach of sunlight, will grow a long trunk, slender and practically branchless, in a desperate endeavor to reach the sunlight. Every plant, beast and man seems to have in itself that fundamental will to survive, to attain the greatest self-development, happiness and welfare.

If then there is a *fundamental* law in the social sciences, that law, it is believed, is the law of *self-preservation*, and *self-development*, and the *pursuit of self-regarding interests*.

* * *

If the issuance of circulation credit is an evil; if it is authorized by a powerful government; if it is true that the wrath of God operates against evil; if it is true that God manifests himself through means; if those means can consist in a physical calamity, a foreign scourge, or the enervation of a people, but if none of these is operative then is it possible nevertheless that the wrath of God against evil in the field of economics can be manifested; and if so, will it be revealed by that fundamental law operating in the social science field, namely of self-preservation, self-development, and the pursuit of the self-regarding interests? To this question the answer, we believe, is *yes*.

Circulation-credit expansion, having been authorized by government, will therefore not be punished by government. Punishment must come from another source.

The form in which the punishment will manifest itself is in a depression. The circulation credit itself will first cause a boom. The boom is certain to be followed by a depression, and so the wrath of God against circulation credit is manifested in that manner. But the question still remains: What is the *mechanism* by which the depression is brought on? It is at this point that the fundamental law of *the pursuit of self-regarding interests* enters the situation.

Because circulation credit results in businessmen miscalculating, by over-estimating their markets and their resources, they initiate projects which pertain more to the future at the expense of the present than the consumers will tolerate. To endeavor to stimulate capital formation by the issuance of circulation credit and low interest rates will be unsuccessful eventually, because instead of waiting for the *future* consumer goods to be obtained from

present capital formation, the public instead will want *current* consumers goods for which it does not wish to wait.

The public says: "Why should we deny ourselves now so that our children in the future may live so much better than we do now?"

Consequently, before expansion projects really based on nothing more than the issuance of circulation credit can be accomplished, it becomes evident that the public will not forgo current consumption sufficiently so that the proposed expansion in capital formation can be completed. The projects become unprofitable, and have to be abandoned; the public, in short, finally enforces its own will onto the economic community. The "wrath of God" then against circulation credit operates in a form which consists in individuals pursuing their self-regarding interests by demanding more present goods and refusing to wait for future goods. The theft so cleverly perpetrated through circulation credit has finally been subjected to the "wrath of God" exercised through the law of self-preservation and legitimate self-interest by the individuals who constitute the public. Underlying the moral law and the penalty for violating it is an indisputable fact of creation, inherent in the nature of all living beings, to wit, the will to survive and to attain the greatest individual welfare. If that in-created nature is violated, the reaction can correctly be described as the "wrath of God." There is no escape *possible* when the laws of morality, inherent in creation, are flouted.

The sequence is: (1) self-deception and theft by means of circulation credit; (2) miscalculation and boom; (3) action by individuals to protect their self-preservation and their welfare, as they see it; and (4) an inescapable depression. Again the law holds: "our sins will find us out."

Money Cranks

The world has today and will probably continue to have many well-intentioned, but nevertheless dangerous, money cranks.

Money cranks have one essential characteristic. They wish to solve the economic problems of the world by *increasing the quantity of money*.

Men with substantial knowledge of money problems feel obligated to resist the programs of money cranks. Bankers generally resist the program of full-fledged money cranks. However, when

bankers oppose money cranks, but nevertheless favor putting out circulation credit, they are inconsistent.

Three different positions may be considered:

1. Unlimited money (and/or credit) expansion; this is the demand of money cranks;

2. Controlled (and therefore, presumably *moderate*) money and credit expansion, as by the banks when they put out circulation credit; and

3. No further money and credit expansion whatever, except as there is more mining of gold, or transfer of gold from industrial to monetary uses.

These three positions are essentially: (1) unrestricted credit expansion; (2) banker-regulated credit expansion; and (3) no *further* credit expansion at all.

A man is hardly consistent if he condemns an act merely on the ground of the *amount* rather than the *principle*. If a little circulation credit is good, then why is not more circulation credit still better. No respectable banker will approve the program of money cranks, but, by their disapproval of money cranks, bankers have really condemned their own issuance of circulation credit. A man, therefore, must be in one of two camps: (1) that of honest money, or (2) that of money cranks, no matter how well-intentioned, respected and wealthy the advocates of a money scheme may be.

Men who are informed on money problems sometimes lament that the "public" does not understand such problems, and they hanker to take the problem out of the control of the common man and leave it to the monetary experts. But there is no un-understandable mystery about money. The common man can decide the question correctly. One way to get his verdict is to ask him questions such as the following:

1. Do you think that one person or a few can become prosperous by letting them counterfeit money? (To this the correct answer is, *yes*, because such person or persons will be able to get a bigger share of the products produced, by buying with their counterfeit money. Other buyers must produce goods or services before they can buy; counterfeiters buy without being obliged first to produce or serve. They benefit because they are in reality thieves.)

2. Should counterfeiters be prohibited from counterfeiting and punished for it. (The proper answer is, *yes*.)

3. Do counterfeiters benefit society by counterfeiting, that is, by manufacturing money? (The answer must be, *no*; because exactly as much as the counterfeiter benefits himself, he hurts others.)

4. Is all issuance of manufactured money then to be condemned? (The proper answer must be, *yes*.)

5. Is circulation credit manufactured money? (The answer is, *yes*.)

6. Should additional circulation credit then be forbidden? (The logical answer, on the premises, must be, *yes*.)

7. Why then is circulation credit considered a big blessing for society, and why is it the chief foundation for some people's hope of general prosperity? (The answer is that such people do not understand what circulation credit really is; that they do not realize that circulation credit is the same as counterfeit bills; that they erroneously believe that circulation credit must be all right because the law allows it; and because the people who are given the privilege are the most distinguished and respected people in the community.)

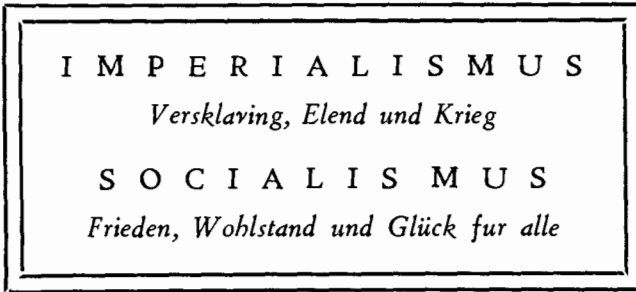
Favoring circulation credit involves bad logic, bad economics, and bad ethics. Even the "common man" should be able to understand that and vote that way, unless he is unable to understand that counterfeit money is bad.

8. If counterfeit money is bad and must be withdrawn as soon as possible, and if circulation credit is equally bad for the same reason, should it not be withdrawn as soon as possible? (To this the *logical* answer would be *yes*, but there is a difference. There is never much counterfeit money outstanding, and eliminating it will have no grave consequences; but there is *so much* circulation credit outstanding that removing it from the money structure would have tremendous consequences, in the form of deflating prices. Because prices are not properly "flexible," especially wages, grave consequences would follow. The best thing in this case is to stop *any increase* in circulation credit. (See August 1959 issue, pages 248ff.) This subject needs more extensive consideration.

The False Claims Of Communists

(How They Dispute Walter Lippmann's Claims)

In East Berlin a huge placard, at the Marx-Engels Platz in connection with an industrial fair in the fall of 1959, carried the following:



Translated, this means:

IMPERIALISM

Enslavement, misery (poverty) and war

SOCIALISM

Peace, well-being and prosperity for all

Imperialism is here substituted by the East Germans for *Capitalism*. By such substitution, the idea is fostered that capitalism is to be identified with imperialism; that, however, needs to be proved, as well as implied or asserted.

The poster asserts in regard to capitalism or imperialism, that the people who live in a capitalistic system suffer enslavement, misery or poverty, and that capitalism is aggressive and a promoter of war. Contrarily, the poster alleges that socialism is the source of peace, well-being, and happiness for all.

Experience reveals that the foregoing allegations are false. Capitalism does not enslave, cause poverty, nor is it aggressive or bellicose. Nor is socialism peaceful, prosperous nor a promoter of happiness. If true, why is there only a trickle of people from capitalistic to socialistic countries, but a steady stream from socialistic to capitalistic countries? That stream away from socialism to capitalism would assume flood proportions if all hindrances to migration from socialism to capitalism were removed. *Migration* tells the story.

The East Berlin statements are propaganda and not truth.

Walter Lippmann has published a book, *The Good Society*. In it he alleged that socialist societies always are or always become *poor, oppressive, and bellicose!* and vice versa, that capitalist societies always are or become *rich, free and peaceful*. One is inclined to think that the communists in East Berlin had read what Lippmann wrote, were unhappy about it, and had decided that the best thing to do is to allege, in big type in big posters, just the opposite.

"Rule of Law" As Customarily Understood Is Inadequate To Protect Society

Three of the requisites to human welfare and prosperity are (1) freedom, (2) the rule of law, and (3) the Law of God.

1. *Freedom*. The majority of men in the western world are in favor of freedom. But that freedom alone cannot be the whole program for a society — that, and no more.

2. *The Rule Of Law*. Awareness that freedom alone is inadequate has induced men to add a second requirement, namely, that to avoid anarchy there must be the "rule of law."

Law is a qualifier of freedom and impinges on it. The problem is *what amount and kind of law is advantageous?* To what question the answer of some has been: the law must be *universal*. *Everybody* must be *under* the law, the ruler as well as the ruled; the judge as well as the citizen; the wise and foolish; the strong and weak; the majority as well as the minority; the stranger and the citizen. There is to be *no* exception.

Why this *universality*? The reasoning underlying this is that if *all* men are under the law, and if the law is bad, then the law will be corrected, because nobody — not even the rulers — will tolerate a bad law when they themselves suffer under it. The hoped-for "protection" against bad law in this situation is the universality of current unpleasant experience under it. The expectation especially is that future experience will test the law to reveal whether it is good or bad. The idea of "rule of law" is, therefore, radically empirical. It does not consider that the basic principles of what is right and what is wrong have really been settled. It says instead: take a chance on the content of the laws you pass, but submit them to the test of acceptability to all. If generally accepted, the content of the law must be good; if not accepted, the content of the law must be bad.

3. *The Law Of God.* The combination of freedom and rule of law, as just defined, is inadequate, in our estimation. To these two we add a third requirement — the moral law of the Hebrew-Christian religion. At this late stage in the history of men, it is absurd, we believe, to protect men only by the empirical operation of the rule of law as in number (2), and to rest the matter there.

Is it debatable that *coercion* of men is evil? or *adultery?* or *theft?* or *fraud?* Is the protection that men are to have to come only from the universality of renewed current empirical trial and error, of any new law, which maybe obviously violates the prohibitions against coercion, adultery, theft and fraud? If the answer is yes, then it appears to us to be folly. What society needs is:

a. freedom — all kinds of freedom, except no freedom to do wrong;

b. a "rule of law" — all laws should be *universal*. Everyone should be under the law; and

c. The Law of God (the decalogue) — which needs no renewed empirical testing. The centuries have tested it and it is wasteful to re-test it; *no law should be tried, not even universally, if it obviously conflicts with the Law of God.*

Items (1) and (2) constitute Liberalism. Items (1), (2) and (3) constitute Christian morality. FIRST PRINCIPLES IN MORALITY AND ECONOMICS is more than Liberal; it is Christian.

* * *

For example, no experimentation with *circulation credit* should be attempted if the issuance of circulation credit involves theft, no matter how subtle the theft may be.

A Genuinely Liberal School System

When the question is asked, Who is responsible for the education of children, then the answers vary. The most popular answer is that the State is responsible. The second most popular answer is that the Church is responsible. Another answer which ought to be considered, but which is less frequently heard, is that the Parents are responsible.

In this country the State school system is known as *public* schools; the Church school system is known as *parochial* schools; and a Parent-controlled system, as *private* schools.

In regard to which system to favor, our answer would be: "Every man to his own taste."

* * *

In his youth the writer worked for a distinguished business man who came as close to "perfect soundness of judgment" as almost any man can come. This employer came to work one day in a bad frame of mind. He had two daughters in their early teens going to a public grade school. There was something at the school which displeased him, and he kept muttering to himself, "These are *my* daughters; *I* am their father; *I* am the one who is responsible for them; and *I* am determined to have my daughters guided the way *I* want them guided."

This man by his words indicated that he held the idea that he had more responsibility in regard to the education of his children than the state had. (He avowed no religion, and consequently was not taking a parochial school into consideration.)

Probably if most people will give thought to the three alternatives to the question, who has primary responsibility for education — state, church or parents — then most of them will probably answer, the parents. If they give that answer, then the educational system which they should prefer is one consisting of private schools organized by parents. People who give such an answer, if they are genuinely consistent, should not rely (primarily) on the state-controlled public school system.

* * *

To say that the parents have the primary responsibility for the education of their children is not to declare that the church has no valid interest in education or that the state should not concern itself with education. Almost certainly education is more extensive today in the United States than it would be if the state had not concerned itself in the form of raising money for education, and by insisting on school attendance up to certain ages.

To acknowledge the role that the state has played is not necessarily to admit that the influence of the state has all been for good. Probably the least doubtful of the acts of the state in regard to education is the requirement of compulsory attendance of children who are born into homes where there is indifference to education. Not everybody subscribes to the wise statement of Erasmus, the famous humanist, who declared that "ennoblement by

education is better than ennoblement by birth." In a sense, *compulsory* education endeavors to compel "ennoblement."

* * *

The legitimate interest of the church in regard to education of the young will be obvious even on scant reflection. Faith can be defined as the "art of believing things regarding which the evidence is disputed."

For the biggest questions in life and in death, there are no *conclusive* answers. The origin of the world is shrouded in the unknown. We do not understand *fully* most of the things in this life. The evidence for the existence of a life after death is disputed. When knowledge of rather obvious things are taught in schools, they cannot be abstracted from, nor isolated from, the ultimate questions on the origin of everything, the nature of things, and the ultimate destiny of the universe.

If religion is defined as the answer (or the refusal to answer questions) about the unknown, then *everybody has a religion*. There is no such thing as a neutral position in education to which all men should be complacently willing to conform. Agnosticism is as much a religion as Christianity or Mohammedanism. Atheism deals as much in the unknown as does Christianity.

Every parent has, of course, a legitimate interest in the character of the instruction given to his children about these ultimate unknowns. Anyone who denies to religious folk the freedom to teach their children of tender age what they wish taught to them is as unjust as a religious person is who insists that his religion must be taught to the children of the first-mentioned.

There are, therefore, powerful reasons for churches assisting in the organization of schools along the lines of faith, that is, along the lines of their answers to the questions in life for which the evidence is differently interpreted by different people.

The big advantage of parochial schools is that their teachings in matters of faith are *stabilized* by about as much as the doctrines of the church itself are stable, and as much as membership is limited to those who adhere to those doctrines. In the protestant churches doctrines are rather unstable. In the Catholic church they are more stable, which gives a peculiar significance to the education in Catholic schools. Any religion hoping to survive for a long time must be slow to change, (but maybe not too slow).

The great advantage which parochial schools have over private religious schools is their potential stability.

* * *

Segregation is one of the fundamental principles of life. Segregation is merely an unfelicitous way of expressing a fundamentally unchallengeable idea, namely, the individual *right to associate* with whom he pleases. It is especially since the rise of socialism-communism that the *right of association* has been challenged.

The right of association has been so universally accepted in the past that it was hardly felt necessary to formulate a doctrine in regard to that right. The cruel have ever tended to band with others who are cruel; the wise have sought the company of others who are wise; the pleasure-loving have sought the company of others who are pleasure-loving; the meek have sought the company of the meek; the virtuous have sought the company of the virtuous; spendthrifts are not the best of friends with thrifty people; the aged visit the aged and not the young; the religious seek the company of those who have the same religious convictions. The right of these to associate in this manner has never been disputed seriously.

Fortunately, this general right of association has never really been challenged (except recently when unfortunately it has been especially challenged in the field of education).

* * *

If the question is asked, What is the *liberal* view in regard to an educational system (with *liberal* defined as a voluntary system), then the answer is that it is a type of system in which everyone has an equal right of association, without a penalty being attached to that in order to discourage selective association. If some parents wish to give their children a religious education, they should be under no greater burden to do that than any other group of parents. Similarly, if a certain race wishes to give a certain kind of education to its children, then it too should be relieved of any greater burden than other parents in regard to the education of their children. To be *liberal* means to let everyone have his maximum freedom.

If the state undertakes to collect taxes for educational purposes, it ought to be prepared to pay out those taxes to groups of parents who wish to have a school for their children. Let us assume that the state collects \$400 a year for educational purposes

per child. Let us assume that there are parents who have 50 children of school age. Let us also assume that they are peculiar folk who wish to have their children educated in a peculiar way. They ought to be entitled to a subsidy for their school in the amount of 50 pupils times \$400, or \$20,000.

Some people might say, and they may be right, that if there are only 20 pupils involved that the parents should be authorized to obtain a subsidy in proportion to that number.

Liberalism, with its general emphasis on liberty, has taken various courses. In England, for example, liberalism took the road of *free enterprise*. In the Netherlands, contrarily, liberalism took the road of *free education*. In the Netherlands, in a peculiar way, the emphasis has been on parents being permitted to organize their own schools, and to obtain a per capita subsidy from taxes raised by the state from everybody. Probably the finest flower of liberalism, in the field of education, has been in the Netherlands.

* * *

If the question is asked, What would be a liberal system of education where the races are involved, then the answer should be obvious. The underlying principle should be that each parent can make his decision in regard to educational problems pertaining to racial questions, *without his being compelled by others to do what he does not wish*. That, after all, is the definition of liberalism — no compulsion.

The question is, How can compulsion be avoided on race questions involving schools?

There are three possible alternatives and no parent should be robbed of his choice of the three. The reason why no more than three choices should be offered is because no more than three *can* exist. The three choices are the following: (1) all-white schools; (2) all-colored schools; (3) combination white-and-colored schools.

In fairness to everybody concerned, if liberal principles are to prevail where a community is racially mixed, those three kinds of schools should be made available. If only any two of these kinds of schools be made available, the system is not liberal. For example, if only white and colored schools are available, then parents who wish their children to go to a mixed school cannot follow their option; they will be under compulsion to send their children to an all-white or an all-colored school.

If, for example, the two schools made available are a white school and a mixed school, then those who want an all-colored school are denied their rights. If only a mixed school and a colored school are available, then those who wish a white school are denied their rights.

Whenever a Supreme Court limits its decision to the existence of only two kinds of schools, an all-white school or an all-colored school and when its decision does not point the way to the only real solution of the problem, namely, to a system which avoids compulsion of anybody, then by having had its attention fixated on only two systems, it has failed to find the right solution because the right solution is dependent, in this case, upon a three-phase system.

* * *

To be liberal, the school system in the United States must be highly varied. There should be public schools, parochial schools and parental (private) schools. There should be art schools, science schools, trade schools. There ought to be religious schools, agnostic schools, atheistic schools. There ought to be white schools, colored schools, and mixed colored and white schools. Everyone of these schools ought to be in competition with every other school, whenever they cover the same fields. Competition is a salutary factor in life generally.

If the government is going to continue to collect taxes for educational purposes, it ought to pay out an average amount per pupil to each of these schools as a subsidy. If any particular school wishes to spend more than average, then the folk operating that school should dig into their own pockets.

* * *

The distinguished magazine, FREEDOM FIRST, published in Great Britain by the Society for Individual Freedom, recently contained a remarkable article on education by the head master of an English school. One of the points which he made was that *the pupil in a school learns more from the pupils than from the teachers*. He made the further point that parents "sense" that, and consequently that (especially in good families) schools are selected with the greatest care, and that as much attention is given to the kind of homes from which the students come as is given to the teaching staff. Such being the case — that children learn as much from their associates as from their teachers — the right of

association exercised by responsible parents is a primary right. Any denial of it temporarily by governments or courts will result in evasion, hatred, disloyalty and maybe the ultimate destruction of the government.

* * *

While abroad recently the writer overheard two educators talk about their educational problems. One of them came from a community disturbed by segregation questions. He was telling his colleague about the vicissitudes through which they had passed during the school season 1958-59. Those vicissitudes were discouraging and some might even call them alarming or appalling; no building, no equipment, etc. — everything improvised.

His colleague finally, commiserating with him, expressed his regret at the great penalty suffered by the poor children under those circumstances, and the damage to their education. But the rejoinder of the first man was instantaneous: "Oh, the children learned more last year than in any year. All the frills had to be abandoned. The result was that they were better educated last year than ever before."

It is not expensive buildings nor elaborate equipment, nor government support — none of these things — which make good schools. Such circumstances may be helpful; but they may also be harmful.

A Reader's Supplementary Syllogism

We have received the following from a distinguished reader:

Enjoyed your December, "*First Principles*" very much, notably your syllogisms. In connection with your sentence, "It is a form of irrationalism," I submit the following *clincher* syllogism:

Major Premise: To "discriminate" or reward promotes personal well-being and social health and harmony.

Minor Premise: To each according to his merit is to "discriminate" or reward.

Conclusion: Therefore to each according to his merit promotes personal well-being and social health and harmony.

—Adolph O. Baumann

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