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

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Choose Your Own Physical Goals In Life From The Only Two Choices Available; and "Formal Hedonism" vs. "Contents of Hedonism"

I

What physical objectives should men have for this life? There are two choices: (1) a pleasant physical life—life, health, prosperity for himself and his loved ones; or (2) an unpleasant physical life—sickness, misery, suffering, poverty and early death.

When presented with the two alternatives we ourselves unhesitatingly choose the first. If you choose the second, that is most certainly your privilege.

If the question is asked, which of these two does the Hebrew-Christian view of life require, then our answer is the former. If you think that the Hebrew-Christian Scriptures present to you as your proper physical goal in life sickness, poverty and misery, that again is your privilege.

But do not refuse to take a position. Do not evade the issue by piously shifting to the spiritual goals of life. Be simple and honest and take a position for once on the physical goals of life, and having taken it, stay with it.

II

We are not acquainted with anyone who chooses sickness, misery, suffering, poverty and early death *willingly*. Christian people whom we know consider these features of life to be evils; they pray for relief from these events.

In regard to the pleasant goals of life which are mentioned in the foregoing, men are universally hedonists—they seek satisfaction and physical happiness. One of the features of hedonism that brings it into ill repute is the fact that other specific forms of hoped-for satisfactions are added to that list of goals, and those forms are appraised to be erroneous and short-sighted, or to involve unfairness to others.

Motivations consisting of "duty" or "honor" or "loyalty" do not remove the hedonistic desire for physical well-being; they may overbear it, but they do not annul it, nor really challenge it as being a desirable thing.

Men "value" good things relative to each other. When men value *honor* more than *life* or *comfort,* they do not place life and comfort in the class of evil, but only as lesser goods for them at that time and place, which should be sacrificed for greater goods.

III

Even the worship of God is hedonistic. A reward is promised for worshipping the true God "in spirit and in truth." If the ultimate reward of worshipping God "in spirit and in truth" would be lack of satisfaction and happiness, it would be inconceivable that anyone would accept or practice such a religion.

(1) True religion is an eternal and transcendental hedonism. (2) Morality is far-sighted and wise hedonism. (3) Immorality is opportunistic and contrary-to-purpose hedonism. But everything in life is a form of hedonism—a search for satisfaction or supposed happiness. The idea that there could be nonstriving for satisfaction or happiness is unrealistic. It is only a question whether one is a good or bad hedonist.

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In our view none, except those who are "irrational," doubt that certain fundamental physical goods are always worth desiring—life, health, strength, comfort, prosperity.

Nobody then should be indifferent to what economics teaches about getting the good things in life. In that sense, economics is a practical science.

IV

Although confident of the correctness of the foregoing, we had misgivings about publishing it, because of the ill fame of hedonism, or even of eudaemonism. (Hedonism has come to mean the desire for dubious and wicked pleasures; and eudaemonism, as the desire for refined and noble pleasures, but pleasures nevertheless.)

Since writing the foregoing we have read the first essay in a recently translated book of Ludwig von Mises, which carries the English title, *Epistemological Problems in Economics* (D. Van Nostrand Company, Inc., Princeton, New Jersey, 1960). Mises makes a significant distinction in this book, and if that distinction is understood, then the validity of hedonism as a principle will not be disputed, nor will there be conflict between hedonism and Christianity, or any other moral system preaching love of God, duty, honor, loyalty, mercy, charity, or some other virtue. However, the distinction which it is necessary to make, in order to understand that, does not seem to be readily grasped.

In mathematics 2 plus 2 equals 4. We have never heard that disputed. We say therefore that *in principle* and *in the abstract,* 2 plus 2 *always* equals 4.

But 2 cows plus 2 horses do not equal either 4 cows or 4 horses. The formal principles of addition have not changed in this case, but the contents of the addition have; it is something other than the principle which is wrong. Change the "content" to 2 cows plus 2 cows and then the conclusion of 4 cows is correct. Erroneously endeavoring to add horses and cows no more challenges the formal rules of addition, than having unwise hedonistic motivations challenges the fact that we must have motivations, and that those motivations may be as wrong as adding cows and horses, but also as right as adding cows only.

Mises in the section of the book that we shall quote is writing about *human action* of any kind. Why do we act? Because we *want* something. If we had no want of any kind, we would continue genuinely inactive, *motionless*. We would not flicker an eyelid, we would not breathe, we would not eat; we would be perfectly inert.

Mises writes on page 52 as follows:

> None of the objections that have been raised for thousands of years against hedonism and utilitarianism has the least bearing upon the theory of action. When the [related] concepts of pleasure and pain, or utility and disutility, are grasped in their formal sense and are deprived of all material content, all the objections that have been repeated *ad nauseam* for ages have the ground cut from under them. It requires a considerable unfamiliarity with the present state of the argument to raise once again the old charges against "immoral" hedonism and "vulgar" utilitarianism.

Mises writes: "When the [related] concepts of pleasure and pain, or utility and disutility, are grasped in their *formal* sense and are *deprived of all material content*," that is, when one distinguishes principles from facts, and knows the difference between what is *formal* and what are *contents*, then one can know what it is all about.

V

That point is different from—and better than—the point we made in the first section of this article. In order to "defend" hedonism we referred to indisputably good *contents* for hedonism —life, health and prosperity for self and loved ones (in contrast to sickness, misery, suffering, poverty and early death). We were endeavoring to substantiate that some forms of hedonism are indeed good. We were writing about the *content* of hedonism. But Mises's distinction is of a better caliber. He is writing about the *formal* aspect of hedonism, not about any specific *content* at all; he is talking merely that 2 plus 2 equals 4.

It is that *formal* aspect of propositions relative to hedonism that appears to be so difficult to apprehend.

Mises later writes (on page 57):

> . . . When science speaks of pleasure, happiness, utility or wants, these signify nothing but what is desired, wished for and aimed at, what men regard as ends and goals, what they lack, and what, if procured, satisfies them. These terms make no reference whatever to the concrete content of what is desired: the science is formal and neutral with regard to values. The one declaration of the science of "happiness" is that it is purely subjective. In this declaration there is, therefore, room for all conceivable desires and wants. Consequently, no statement about the quality of the ends aimed at by men can in any way affect or undermine the correctness of our theory.

VI

Because the words, pleasure and happiness, are ambiguous, any formulation of hedonism in a proposition such as, the purpose of life is happiness, is subject to objections which are based on confusion of form with content.

The problem is to find a better way to express the real idea in the foregoing proposition. Mises has formulated several variations of it which are superior. In his *Theory and History* (Yale University Press, New Haven, 1957), he wrote (our italics):

> In the strict sense of the term, acting man aims only at one ultimate end, at *the attainment of a state of affairs that suits him better than the alternatives.*

Later, on page 20, he wrote:

> Guided by his valuations, man is intent upon *substituting conditions that please him better for conditions which he deems less satisfactory.*

The words which are bugaboos for the anti-hedonists, to wit, happiness and pleasure, have been left out of these formulations.

These quotations come as close to the formulation *in the abstract* of the motivation for human action, as the expression, 2 plus 2 equals 4, is abstract in mathematics. Nothing more has been expressed than this, that men act according to what they think will suit them better rather than according to what they think will suit them less.

Such is the least ambigious statement of hedonism in the formal sense.

VII

All hedonism, in that formal sense, is unchallengeable. Life is meaningless without *formal hedonism.*

But the *content of hedonism* is another subject entirely. That content can be (1) bad, (2) neutral, a sort of adiaphora, or (3) good.

In the first section of this article we listed certain contents of hedonism which (in our opinion) are always good. The contents of *our* hedonism in FIRST PRINCIPLES, that is, our goals, are those of the Hebrew-Christian religion.

The Great Man Whose Refrain Was, "Our Costs Are Too High"

The purpose of every invention and of every true capitalistic endeavor is to *reduce costs.* This can be in the form of a better product for the same cost; or the same product for less cost. The quintessence of the spirit of capitalism is *economy, that is, more product for less cost.*

* * *

Last December a great American business man* died in Los Altos, California, after a retirement of more than 10 years from an executive position in one of the largest corporations in America. This man came as close to "perfect soundness of judgment" as any business man with whom I have ever been closely associated.

That soundness of judgment was not the product of quickness or cleverness of mind, but of two quite different characteristics, namely, (1) soundness of *principles* and (2) excellency of intellectual *method*. The first of these conformed to what Scripture teaches regarding wisdom, namely, that it consists in uniformly conforming to ethical rules, but Clithero did so on the ground of reason rather than scriptural authority. The second foundation for his remarkable soundness of judgment consisted of a self-developed method of solving problems. This method consisted of tireless fact-finding, perfectionist thoroughness, indefatigable labor, callous scepticism of mere affirmations, rejection of rhetoric or flattery as substitutes for logic, and cynicism about talk which might cover self-deception or dishonesty. As is true of great men generally, Clithero had developed his own unique method of analysis to the point that it was finally automatic with him.

Ten years of employment, in a giant industrial corporation, mostly under the personal direction of this man, was an education in itself. But it took a long time for a youth with my inexperience to discover for what kind of a man he was working. One of the expressions of Clithero which long failed to "register" on my mind was the statement (repeated almost as a refrain), *Our costs are too high.*

At first, I really failed to *note* what he said; then I resented it; next I became aware of its validity in a specific case in question; and eventually I came to see it as one formulation of the only solution of the most fundamental problem in *this* life — namely, genuinely *economic* living, that is, less costs to get a given result; less labor to get a given reward; a "reduction" in cost by giving something more useful, more long-lasting, more

*William Scott Clithero, (1883-1959)

beautiful for the same cost and price—in short, a higher standard of living.

Nothing constitutes an earthly *gain* which does not give more for the same cost, or give the same for less cost. Here was a man without theoretical training in economics, and a man with no extraordinary interest in uplifting others, who continued to endeavor to help society by urging reduction in costs in order to save manpower and investment—although he was initially motivated to make a profit for the company.

As was made clear on pages 184-192 of the June issue of First Principles, the "profit" from an automation machine must stem from one source only—*its reduction of costs;* and, further, that no inventor or "cutter of costs" of any type can retain the special "advantage" of that cost-cutting *for very long.*

The refrain, *Our costs are too high,* is the refrain that every human being who wishes to help himself *temporarily,* and his fellow men *permanently,* should continue to iterate to himself, and accept as the principle by which he is living.

The poor nations of the world are the nations which lack people who have kept saying to themselves, Our costs are too high. Therefore, they continue to work by "main strength and awkwardness"—by hard and wearying physical labor, which in capitalistic countries is done with far less cost of personal fatigue.

The higher standard of living in capitalistic countries is largely due to the "cost-cutting" of men as Clithero, whose vision has permitted the working man—no, no, the *members of society generally*—to get *all* the benefit from the cost-cutting *eventually,* with only a temporary extra return to the innovator, the man who "cut costs"— that is, the man who put himself in the position of being able, under the pressure of competition, to "give away" to consumers the benefit of his having cut his costs.

* * *

Cost-cutting does not consist in penny-pinching only, although most of the great business men that the world has produced were "tight" operators. They acquired that habit in the years they were "struggling"; but once having learned (the hard way) the necessity of operating by that method, they were unable and unwilling to un-learn it when they had become successful and rich.

Cost-cutting did not consist for these men in grinding down suppliers or employees. It consisted mostly in better plans, wiser supervision, better design of products, elimination of unnecessary activities. These men attacked the structure of costs as well as the administration of costs. And always *capital* was employed as an instrument to lower costs. Indeed, it is acknowledged that, at first, such new capital yielded an extraordinary return to the owners. But as was explained in the June issue, the basic scheme of operation in a free, capitalist society, is to diffuse every new and extraordinary benefit over all men.

Noncapitalist societies have the very poor and the very rich. Capitalist societies reduce extremes—inevitably, inexorably, steadily. Capitalist societies raise the very poor to a much better standard of living. A huge middle class develops. The rich are *relatively* few.

* * *

Any man who aspires to be a great business man can become one, if he intelligently goes to work on producing what is better for less cost. Have you tried that approach in your business, in your household? One of the last strongholds of inefficiency —of high costs—is the operation of a typical household.

An Analysis To Show Who Gets The "Profit" From New Automation Machines

(*Final Installment*)

This is the fourth and final installment of an analysis regarding who may be, and are likely to be, the ultimate beneficiaries of the invention of a new automation machine, which has the merit that it reduces costs. Much more could be written than these four articles contain, but they should serve for the time being.

* * *

Let us assume a corporation buys newly invented hosiery-weaving machines, fifty percent faster and better than ever before available. (Such are not exactly automation machines, but there will be more variety in the presentation if various inventions are taken as illustrations.) Let us assume further that the employees operating the old machines were paid on a piece rate of $1 per dozen produced, and let us also assume that at that piece rate they could average to earn $3 an hour (or $120 for a 40-hour week) on the old machine. At the old piece rate, operators can earn, while operating new machines, $4.50 an hour, or $180 a week.

The new, high-speed machines will (unless prices of hosiery are reduced thereby stimulating consumption) displace operators. Instead of there being, say, 90 men to operate the old machines, the company will eventually have only 60 men operating the new machines, because the 60 can produce as much as the 90 formerly produced. As was indicated in the April issue, pages 123-125, the men who are no longer needed may get a special dismissal wage, or "technological unemployment compensation," whatever it may be called, but then (sooner or later) they will "be on their own" and will have to find other jobs, and will do so.

The reason why the 30 cannot continue to work at their old employment is because of *marginal utility.* If all 90 continued to work at producing the product of these new machines, i.e., women's full-fashioned hosiery, then there will be more hosiery for sale than women will buy, at the old unreduced price.

The women, who consume hose, are distributing their purchasing power over 1001 things that women want. Every dollar of purchasing power that women have for spending has many potential uses—to buy new hats, new hair-dos, a holiday, new furniture, new jewelry, more concerts, etc. Every item is fighting for a place within the marginal utility of a woman's purchasing power. These items fighting for a place are inside or outside of that woman's marginal utility. The fact that a new invention permits 50 per cent more hosiery to be knit with an unchanged number of machine operators means nothing to women thinking hard to get the most satisfaction out of the expenditure of their marginal—their last available—dollar, *unless the price of full-fashioned hosiery is reduced.* Then madam may buy more full-fashioned hosiery than previously. But if the price is not reduced, she will not buy extra hose, merely because somebody has invented a new and faster full-fashioned hosiery machine.

The assumption according to which we are reasoning is that the price of hose is not reduced, but that the inventor of the machines, and the manufacturer who bought them, wish to get a maximum return out of the situation *for themselves.* At the moment we are leaving consumer benefits out of consideration, although as was shown in the preceding issue (pages 187-192) the consumer—in this case, Mrs. Public—is *always* the *ultimate* and sole beneficiary of new inventions and of capital investment, if they come into being in a free market society. As the problem is now being posed, we wish to see who else can and will try to participate in the cost-savings obtainable from the new machine, before those savings can go to the consumer, and who, in fact, will struggle to prevent the savings ever going eventually to the consumer.

The Most Aggressive Claimants To The Benefits Of New Machines

A group of claimants which we have not considered consists of *the surviving operators working at the new machines,* the 60 in our illustration. Will they claim the benefit from the new invention? If so, that claim will naturally manifest itself in a refusal to let the labor rate per dozen be lowered. The surviving operators will say: "The old piece rate of $1 a dozen may not be lowered." In other words, they will be saying: "It is *we* who demand the full benefit of the new invention." Or in still other words: "We are denying the inventor an inventor's reward, because the benefit is all in the labor saving, and we want that for ourselves. Furthermore, although our employer had to invest more money in this faster machine, he is not to get a reward for his larger investment, because then he would have to get that reward by our allowing him to negotiate somewhat lower piece rates. Nor do we want the price of women's full-fashioned hosiery to be lowered, because if the price is lowered as much as the cost-saving, if, in other words, the consumer is to get it all, then we cannot retain the profit from these machines for ourselves, whereas we want it all. What we ask is that you leave the piece rate unchanged."

The fact is that in the United States that proposition is almost universally accepted. It is usually phrased in this manner: *the benefit of technological improvements should go to labor.* (Note that this is different from saying "to the consumer.")

The labor unions insist on the foregoing principle as a justification for getting higher wages. Nearly all have heard of the *Annual Three Percent Improvement Factor* in the so-called efficiency of labor. And who should get that? The answer given is:

the employees working at the machines. But where does the Annual Three Percent Improvement Factor originate? Are the employees working three percent harder every year? To the contrary, the onerousness—the burdensomeness—of work is steadily being reduced. There is one and only one source of this Annual Three Percent Improvement Factor, namely, new inventions or improved machines, or at least, more machines per man. Labor does not create the "improvement factor"; capital creates it.

What the labor unions demand—that the full Annual Three Percent Improvement Factor accrue to labor—is the same thing as saying, "We operators of the new machines claim the total gain from the new machines for ourselves ONLY. None of it is to go to the inventor, to the displaced employees, to the employer, to the suppliers, or to the consumer."

We see nothing wrong with the *wish* to get that gain, but there is much to be said against the *demand* to get that gain, and there is much to be said against the public accepting the proposition that the Annual Three Percent Improvement Factor should go to the operators of machines rather than the consumer.

Here is a new invention. It is one thing for the machine to be ringed by eager, would-be beneficiaries. In fact, it is ringed by such people—inventors, capitalists, employees, consumers. To want the benefit is one thing; the *moral* question is: by what device will each of these claimants endeavor to retain or participate in the benefits? The inventor can retain the benefit as long as he has unbreakable and limitless patents; the capitalist can retain the benefit as long as he has a monopoly; the union can retain the benefit for its members as long as it has a closed or union shop (that is, a *labor* monopoly).

Contrarily, the "unorganized" *consumers* can hardly develop a coercive method. They are apparently in the weakest position. (In fact, however, they are ultimately in the strongest position, for the reason that economic law is *irresistible,* and cannot be frustrated finally by any union power, by any capitalist monopoly, nor by any patent rights. Economic *law* is as supreme ultimately, as natural law is supreme in its field.)

The Issues Involved

1. How much *will* the surviving machine operators eventu-

ally get of the benefits of the new machines? The answer is: a little; not much.

2. How much *should* the surviving machine operators eventually get of the benefits of the new machines? The answer is: a a little; not much.

3. What *method* may any claimant—the machine operators included—employ to get a "share" of the benefits of the new machine?

4. Is the demand for the Annual Three Percent Improvement Factor, by labor unions, reconcilable with the ethics of the Hebrew-Christian religions, which require that Thou shalt love thy neighbor as thyself?

These questions will be answered in reverse order.

Is The Demand For The Three Percent Improvement Factor Reconcilable With Loving The Neighbor?

The answer is NO, to the question whether the *demand* of the labor unions to the Annual Three Percent Improvement Factor is reconcilable with "loving the neighbor as thyself," as the Hebrew-Christian religion requires.

The Annual Three Percent Improvement Factor is presently taken by unions as the *average* improvement factor based on increases in capital equipment available. It is realized that some machines will show a larger percentage improvement factor, but others none. The *three* percent may not be exactly right, but it is considered to be the improvement spread over the whole mass of operators of machines. If the improvement would increase to 4% on the average, the demand would be raised to 4%. If the improvement would decline to 2% on the average, the demand would (presumably) be reduced to 2%. It is not feasible for unions to make their claims by specific machines and specific machine operators. That would introduce a complexity, and discrimination in favor of employees lucky enough to work on newly invented machines. The 3% is supposed to gather in *all* the gains by invention, capital improvement and additions per operator. In short, the benefits of new inventions and the expansion of capitalism are to go to *some* of the workers (those in the unions) rather than to *all* of the consumers.

In the previous analyses it was shown that *temporarily* this or that claimant—inventor, capitalist, etc.—would share as beneficiaries, but that eventually the consumer would be the sole beneficiary. But the Annual Three Percent Improvement Factor is a principle that involves that the consumer will *never* get the ultimate benefit, but that the operators of the machines will. The benefits are to be frozen in the Annual Three Percent Improvement Factor wage increase.

This proposal violates Hebrew-Christian ethics in two respects, (1) it limits "neighbors" to one class, excluding others; and (2) it relies on compulsion, in violation of the Sixth Commandment of the Decalogue, *Thou shalt not coerce.*

The *consumers* are everybody; the consumers, as was shown in the previous issue, would get all the benefits eventually from invention and capitalism in a *free market.* The reason for that is that patents expire, competitors copy, and everybody in business struggles to keep close to the leaders. The mechanism by which such benefits accrue to the consumer are lower prices, as a result of competition. In the situation which is being considered, prices cannot be lowered to the consumer, because the savings from the new machines have been impounded by the operators of the machines in the form of higher wages.

The people, therefore, who favor the Annual Three Percent Improvement Factor as the basis for the wage policy, are people who say in effect, "Not everybody is my neighbor, but only my fellow producers, and of course I share with them." If there are others who favor this scheme of things, they are confused.

There is a famous incident mentioned in the New Testament. The first question posed was: What does it mean to love the neighbor as the self? But the second question followed hard upon the first, and it was: And *who is my neighbor?* To that question, the answer in parable form was: *everybody.* (See the Parable of the Good Samaritan.) The Annual Three Percent Improvement Factor involves a contradiction to that principle.

The Annual Three Percent Improvement Factor involves another unethical principle; it involves compulsion. The unions would be able to obtain for their members little of the Annual Three Percent Improvement Factor if they did not dispose over improper power and coercion by means of strikes, threats, and massive control over the marginal utility of labor, as was explained on pages 174-176 of the June issue. The law specifically allows monopoly power to labor unions. It is because of those monopoly powers that unions can temporarily impound, for their members only, the Annual Three Percent Improvement Factor, with nothing left for the rest. (Their purpose of course is to impound it permanently, which is a program doomed to failure.)

That such *coercion* is a violation of the Decalogue has been presented in earlier issues, and should not take up more attention in this connection.

How will consumers benefit if union monopoly power is not permitted to become operative? By *lower prices.* If the Annual Improvement Factor is three percent, then prices would (if all other things were equal) drop steadily. The standard of living would go up because prices would be declining faster than wages. The alternative, which the people of the United States have chosen (under the influence of unwise leaders), is to increase labor rates 3% to one group. Actually, how all this is finally distributed becomes complex, but the unchallengeable general conclusion that must be reached is that, *in principle coercion is wrong in a good society.* That adverse judgment must be accepted, or coercion will eventually destroy a good society.

What Method May A Claimant Employ To Get A Share Of The Benefits Of A New Machine?

But the foregoing union critique of coercion is not readily accepted. A rejoinder is expressed in this manner: The big grind down the small; the rich grind down the weak; the employer grinds down the employee. Every trade, every contract, every transaction involves coercion *of a sort.* The man in a strong position can out-trade the man in a weak position.

For the purpose of analysis only, let us grant it. The "strong" man, in this case, is the employer or the capitalist. Will he be able to retain the benefits of the new machine? Those who advance that argument are they who do not know about or who reject the facts of life in business, as those were outlined in the text and charts on pages 187-192 of the previous issue. The so-called strong *cannot* retain the benefits of new inventions.

It is the inability of some to see beyond the obvious which prevents them from reasoning lucidly. A case in point is Beatrice Webb, who with her husband Sidney Webb, greatly damaged the welfare of the people of England by seducing many of them to accept the ideas of socialism.

Beatrice was the daughter of a wealthy and powerful business tycoon. Beatrice, whom the Creator had apparently decided to leave naive, observed with shock and disapproval how her father operated. He ran his business like an emperor. His employees feared (respected?) him. They were afraid to contradict him. Her father acted like and seemed to be a perfect dictator, an evil actor who should be deprived of being so powerful, and high-handed, and with such capacity of making himself respected. What poor Beatrice did not see, and was apparently not blessed with the perspicacity to see, was that papa might be master of his house, and master of his employees in a sense, but that in the final analysis he was *not a free agent,* but a subordinate of his customers. Yes, Beatrice's father "ran" the company; but the customers of the company "ran" Beatrice's father. Beatrice suffered from the hallucination that her father was doing what he arbitrarily pleased to be doing; that he was really irresponsible; that he represented autonomous power.

But that view is a most defective one. Let Beatrice's papa but set his prices too high; or produce poor merchandise; or give poor service; or let his labor cost get too high, and his days of power and prestige will be over. Mr. and Mrs. Consumer will bring Beatrice's papa to time fast.

But what about the poor employees of Beatrice's papa? Did papa not grind them down into poverty? Suppose he paid less wages than others. Would not the employees leave? Or if they were "too weak" to leave because of family obligations, etc., would not Beatrice's papa soon have trouble getting new help because new employees would go to work elsewhere where the wages were better? Papa would soon be short of necessary labor, if he treated employees worse than the marginal utility of labor required. And then Beatrice's papa would be *forced* to raise his wages in order either not to lose help, or in order to gain help.

In many businesses deferential respect is shown to the big executives in it. They may think they are "big shots," but really they are little fellows. True, they may tragically suffer the same hallucinations about themselves, that Beatrice suffered about her own papa. But it is hopeless to try to remove all the hallucinations of the naive folk who live in the world.

Behind the idea that business tycoons can be arbitrary with customers *or employees* lies a whole series of defective observations and fallacies which it is not appropriate to cover at this point.

How Much Should The Surviving Machine Operators Get Of The Benefits Of The New Machine?

The assumption underlying this question is that the surviving machine operators will not be able to demand all the benefits from the new machine, and also that they will not be living in an atmosphere which concedes the principle underlying the expression, Three Percent Annual Improvement Factor. What will these operators get in a *free market?* Will they get nothing?

They will certainly get something. The purpose of the new machine was to cut costs, and not to subsidize the Annual Three Percent Improvement Factor. The companies that cut costs are the best-managed companies. By cutting costs they put themselves in a position to cut prices. By cutting prices they can sell more. When they sell more, they need more employees. When they need more employees, they cannot pay less than the market price for labor, or just the market price for labor. To entice employees away from other employers, and to induce new entrants into the labor market to come to their shops, the *competent employers* (who are also always in the front technologically) *offer to pay more wages than the prevailing market rate.* Therefore, the surviving operators will get "their share" of the benefits of the new invention, because their cooperation is needed, and must be purchased in the open market where marginal utility reigns supreme.

It will be obvious from the foregoing that the machine operator is no more forgotten than the inventor, or the capitalist, or the consumer, or the raw material supplier. He is subject to the same laws that benefit them and the same laws that restrict them. The strictures which are determined by the fact that there is a *universal welfareshortage* do pinch him. But no more than others. It is foolish to argue against what is designated by the term, *universal welfareshortage;* it is equivalent to arguing against creation, nature, and God.

How Much Will The Surviving Machine Operators Get Of The Benefits Of New Machines?

Behind this question lies the assumption that the operators will temporarily enforce their Annual Three Percent Improvement Factor. The conclusion might then be: "Well, they have coercive power; if they have that, then they will get the full benefit derived from the new machines; neither inventor, nor capitalist, nor the consumers will get it; that's that."

But such an answer assumes that there is no such thing as *economic law,* or more clearly, *economic LAW.*

The fact is that the unions do *not* get what they declare they want, and what they declare they are entitled to. They get only a fraction of what they set out to get. Temporarily, they get, by labor monopoly, that is, by coercion, more than they would get in a free market, and more than they are entitled to morally, but right behind them is a Nemesis, a goddess of retribution, who will exact compensatory justice, and will eventually remove the advantages gained by coercion.

The avenging nemesis takes three forms: (1) others are injured as much by the coercive hogging of gains by union members as they gain; Peter is robbed to pay Paul; or (2) there is chronic unemployment; or (3) there is inflationism. The magnitudes of these evils are in the order mentioned; the first is the least; the second is worse; the third is worst. Fifty years ago we had the first; in the 1930s we had the second; at the present time we have the third. We have gone from bad to worse, and from worse to worst.

(1) The original labor movement was a craft movement, that is, it was an organization of skilled workers only, with the unskilled kept out as though they were pariahs. As the skilled, by union organization or more accurately by union coercion, raised their rates of pay, the nonskilled, nonorganized, nonpowerful workers received that much less. But when John Lewis came along with the idea of omnibus unions to include all wage earners, and eventually nearly everybody, the number of the victims was reduced. Originally, the victims had included all except the organized, skilled workers; the rest consisted of everybody else—the unskilled, farmers, office help, professional people, etc.; but especially the unskilled. With more and more groups being organ-

ized into unions, only a shrinking number of residual, unorganized folk are the victims. The tendency, for example, of teachers' and ministers' salaries to lag behind the increase in general wage rates is notorious. Go to a meeting; the poorest car there probably belongs to the preacher.

(2) In the 1930s when the union movement had become so inclusive among wage earners that the victims of union pressure for higher labor rates had about been restricted to the nonwage-earning population, the consequence of union coercion was chronic unemployment. Labor rates were held too high by the unions to permit the slower and less-productive workers to be employed profitably. They became unemployed. And not only that, but *chronically* unemployed. The structure of prices versus wage rates prohibited hiring the less-productive. As chronic unemployment is nerve-wracking and frustrating, it is politically unfeasible. It was only a question of time before it would be abandoned for something that appeared to be a nerve sedative rather than a nerve irritator.

(3) The next form in which the unsound policy of reserving to labor union members the bulk of the benefits from inventions and advances in capitalism has proved, as might be expected, to be inflationism. This is a big subject, but the system has been working in the United States as follows:

(a) Labor rates are forced up on the ground that labor should get the Annual Three Percent Improvement Factor increase (an increase which, however, stems from capital and not from labor).

(b) To avoid products, therefore, not being salable, because the consumers do not have enough money to buy the products with this steadily augmenting labor cost in it, the monetary authorities have been steadily increasing the amount of money. This has permitted price increases, thereby eliminating unemployment. If this additional money were not made available, prices could not increase, and then we would be back to chronic unemployment. And so it is the official policy of the United States people and government to accept the principle of manufacturing more and more money in order to avoid chronic unemployment, or as it is expressed in positive terms, to promote full employment. This means all the instabilities and injustices that inflationism involves.

(c) But the wrath of God—or if you will, the laws of economics —or as others might say, ineluctable cause and effect— will eventually "catch up" with this mischief. What happens will depend on who "sins" the faster, we or foreign nations. If we inflate slower than they do; if they sin faster than we do, this mischief can go on a long time at the expense of those citizens who do not know how to "hedge against inflation." (On how to do so, see FIRST PRINCIPLES, June, 1958, pages 167-171.) But if we inflate faster (under a pressure that our laws have deliberately permitted to labor unions), then we will lose our export markets, we will be disturbed with more imports than exports, we will lose gold, we will have chronic unemployment again, etc. In short, we have not found, and we never shall find, a method of being unsound in our domestic policies, or in ethical terms, we will *never* find a way to sin in a penalty-less manner. The ages give us no precedent to encourage us on that, and logic warns us of inescapable, undesirable consequences. Our "sins *will* find us out."

* * *

It is appropriate, therefore, to state a general conclusion: *Instead of the proposition that the benefits of technological improvements should go exclusively (or even predominantly) to machine operators and remain there, the contrary proposition should be accepted, to wit, the benefit of technological improvements should temporarily be distributed to all the participants whose cooperation is necessary, but should be left to go, by the course determined by active competition in free markets, to the only proper eventual and ultimate beneficiaries, namely, consumers.*

No government, no church, no individual will ever d-i-s-t-r-i-b-u-t-e the benefits derivable from the deeds of inventors and the savings of investors as well as competition will distribute those benefits, if competition is only left to function unhindered.

The real causal factor, underlying the *distribution of benefits,* and operating under the name of competition, is that ineradicable self-love which all men have as a gift of creation. The consequence is that the legitimate pursuit of self-welfare, an inclination created by God in men, *binds men together by the laws which determine the relations of men to goods.* Those relations are described and illuminated by the Laws of Marginal Utility. Society cannot be examined analytically except the researcher has a thorough understanding of marginal utility.

To try to understand society without understanding marginal utility is like trying to learn to read without being willing to learn the alphabet.

The Question Of The Legitimacy Of Five Percent Interest

Profit varies; for one man or one company it may be high; for another man and another company it may be low, or even nonexistent.

Almost always the most profitable companies pay the highest wages; and the least profitable companies, the lowest wages. Profit then does not ordinarily depend on exploitation of the workers. If that were true, then the wages in the most successful companies would be the lowest.

When the question is asked: what is the average profitability of companies, it is not possible to give an exact answer. Probably it is somewhere between 3% and 6% on the invested capital. The percentage will vary in different parts of the world, and may be much higher in very poor economies. Arbitrarily, we have selected 5% as the average return on the invested capital, or net worth, of a business. That means that if you invest $100 in a business, you will have $105 at the end of the year. You can take out the $5 and spend it, or you can leave it in the business. And so, on the average, year-in and year-out you may earn 5%.

This percentage return on capital, or on money loaned, goes by various names, *profit* or *earnings, interest, discount, rent.* The terminology is confusing and therefore unfortunate.

(1) *Interest* usually refers to the return on, or income derived from, money loaned. The percentage does not fluctuate greatly.

(2) *Profit* or *earnings* refer to the gain from being in business. (Instead of a gain, there is often a *loss.*) The profit or loss gyrates up and down disconcertingly to nearly all people ex-

cept those who have a good perspective of what is going on. (A *dividend* is the part of the current or past earnings paid out at a given time.)

(3) *Discount* mostly refers to the same thing that *interest* does as was explained in the foregoing. It is a term used more by bankers than by others. The public seldom uses the term, and does not generally understand it. In the grade schools the children are taught that "bank discount" is a neat way by which bankers can collect more interest, by taking the interest they want on their money out of the principal of the loan before they make it. As is true of many things in life, this is an apparent truth which fails to illuminate the subject adequately, although a full understanding of it would be valuable.

(4) *Rent* is the return on land and fixed improvements on land.

In addition, all four terms (interest, profit, discount and rent) are grouped, in theoretical economics, under the one term, *interest*. Interest is, therefore, a *specific* term for the income derived from loaning money, and a *generic* term for income not only from money but also from land and from any form of capital.

There are, in addition, other complications such as *gross interest* versus *net interest*. There is also the question of risk allowances, which are hidden in an interest rate; these are really disguised insurance premiums; a risky loan will require a higher interest rate than a safe loan. Then, there is a factor hidden in the interest rate which may be described as the allowance for inflation or deflation of prices.

But there remains this fundamental fact—there is a "return," an income, on capital and money. It may have several names; it may be steady or it may gyrate; it may be a single pure factor, or it may be a complex combination of return, risk, depreciation, trends, etc.; but whatever the phenomenon is called, and despite it not being sure, there is nevertheless on the average an income that is "unearned" and that accrues to the owner of capital. (Incidentally, the term "unearned income" is most unfortunate. It is impossible for interest, correctly understood, to have any connection with earnings.)

In the preceding article and in the series of which it was a part, *profit* was talked about as being variable. It was assumed to be as high as 20% annually. But it was also declared that a profit percentage at 20% would be only temporary and unstable. It was declared that the trend would always be downward—*until the profit was about 5%,* when it would level out.

In actual life things are not so simple as that. Profits do not "settle" at 5%; the actual tendency is to fluctuate above and below that figure, usually less rather than more. There may be actual losses.

We come now to the crucial question—*Why that return?* Why not 2%? Why not 10%? Why any at all?

No answer to that question can have real meaning unless it includes in its explanation a use of the concept *marginal utility.*

In all the centuries of human history up to 1889 no satisfactory answer was found by philosophers, theologians, moralists, business men or anybody.

The "cause" for the finding of the correct answer was that for the first time in the history of mankind a man had come along who struck a blow at the very root of interest in a generic sense. That had never been done before; not by Moses or the prophets; not by the Greeks, or the Romans; not by the Roman Catholic church. Those attackers had merely been attempting to clip off some of the branches of the tree, but they never put the axe to the tree. The man who finally came upon the scene and attacked *all interest in principle,* and challenged its existence in any and every form as injustice and iniquity was Karl Marx (1818-1883). He declared that *all* interest was exploitation of the weak, and a vicious evil.

There is no real relationship between the attacks in the Hebrew-Christian Scriptures, by Greek philosophers, and by the Roman Catholic church on *interest in a specific sense,* on the one hand; and the attack of Karl Marx on *interest in a generic sense,* on the other hand. Those are distinct phenomena.

But when the Goliath against interest in a generic sense appeared on the scene, it was inevitable that a revolution was at hand in the economic world unless a David in favor of interest in a generic sense appeared to fight it out in single combat. The David who came forward at that time was Eugen von Böhm-Bawerk (1851-1914).

It is proposed in this and some of the following issues to outline Böhm-Bawerk's analysis of the phenomena of interest in a generic sense. The term that is used to designate that kind of interest, in the English translations of Böhm-Bawerk, is *originary interest;* originary here implies primeval, fundamental, or basic interest. It refers to the *common element* in money interest, business profit, bank discount, and land and building rents.

Theologians And The Interest Rate

It *seems* that the Bible condemns interest on money. At any rate, many Bible students have interpreted various remarks in the Bible in that way.

The Mother Church (Roman Catholic) for centuries disciplined its members if they accepted or paid interest.

Then there are the "trimmers," who think that truth, righteousness and peace are obtainable by a middle course; they are in favor of interest but are opposed to *excessive* interest, that is, they are opposed to what is called usury.

There is nothing in the Bible that explains where usury begins or ends. Nobody can categorically say that one rate is usury and that another is not. What the statutes of the government declare to be usury is as arbitrary as any individual man's opinion.

The use of the idea of usury should apply much more to restraining those who loan money to the imprudent, desperate and foolish, rather than to the determination of the general rate of interest for everybody. And so shifting from *interest* to *usury* is quibbling; nothing has been settled thereby.

Cautious expositors of the Bible have backed away from saying that the Bible condems interest, despite statements that indicate that writers of some of the books of the Bible appear to reject money interest; see Exodus 22:25; Leviticus 25:36; Deuteronomy 23:19; Nehemiah 5:7; Psalm 15:5; Proverbs 28:8; Isaiah 24:2; Ezekiel 18:8, 13 and 17 and Ezekiel 22:12.

It is significant that there is no statement by Christ in the New Testament condemning interest; rather, he accepts interest as a proper phenomena in society; see Matthew 25:27 and Luke 17:23.

The Roman Catholic Church's persevering fight to enforce its view that interest was unjust, because the Bible seemed to condemn interest, ended in complete and ignominious defeat. No philosopher, no church, no state has ever been able to drive out the paying and the receiving of interest. Only a few Biblical obscurantists still concern themselves tremulously whether the payment and acceptance of interest is sin. There is no prospect that the church, on *scriptural* grounds, will revive its opposition to interest; in that form, the problem is a dead dodo. There is, in fact, no merit to the proposition that business interest is forbidden in Scripture; see earlier issues of FIRST PRINCIPLES.

Although orthodox theologians and churches know that they have been defeated on interest, and although they probably will never revive their fight against interest, nevertheless the observation appears to be justified that they do not know *why* they were defeated. They are like a man stunned by a terrible blow, who recovers his senses, but does not have any idea of what happened and who did it. All the man knows is that he has a terrible headache. All that the devout theologians know is that they lost the fight against interest.

* * *

Whether interest is something that is moral or immoral to exact from a borrower should be answerable on the basis of logic as well as on the basis of authority. The question, therefore, arises: what is the *origin* of interest? After that has been discovered, it will no longer be out of order to have the temerity to appraise it.

But Christian thinkers—the men whose thinking is determined by their adherence to Christian doctrine and required mode of living—have not, to the writer's knowledge, evinced an understanding of what the origin of interest is. Their writings give evidence of only insignificant knowledge of the economics of interest.

Several years ago, this publication offered a $1,000 prize for a quotation of a logical explanation of the phenomenon of interest to be found in the writings of anyone connected with one of the three great branches of the Christian religion (the Calvinist). No one wrote referring us to any logical explanation of interest that they had ever seen in any writing by any man professing himself a Calvinist. The ease with which that $1,000 could have been earned if such a document, or paragraph, or sentence existed, together with the fact that no quotation or explanation was forthcoming, is significant evidence that the origin of interest is generally unknown among Christians, or at least among Calvinists.

* * *

But if the devout, Biblically minded theologians have abandoned critique of interest on any alleged ground in Scripture, the modern, rationalistic theologians who look at socialism as being the prospective Kingdom of God on earth have taken up the old fight against interest. They have read Karl Marx's writings on interest in his *Das Kapital,* or they have learned of his views second (or third) hand, and many of them accept fully or in part Marx's critique of originary interest.

The mildest form in which they express their anti-interest critique is that they say that the profits in business are too high. Or they say that prices of products should not be raised but that wages should; this is a squeeze argument—the squeeze being between selling prices and costs—which is equivalent to saying that the profits which businesses presently obtain are too high.

And so, as the attack by the old-fashioned, devout and Biblical theologians has become silent, the attack by the sophisticated, rationalistic and socialistic-minded theologians has become more vigorous.

The Bible is no longer quoted against interest, by conservative theologians. But Karl Marx is quoted, or if not quoted his ideas against interest are accepted as premises, by liberal theologians.

* * *

The great furore made by Marx was about the *exploitation of the employee.* If businesses average to earn only 5% on their investment, then it is that 5% which constitutes the total of the exploitation. In that sense, the *interest rate* is a basic issue between Capitalism and Socialism.

The Origin Of Interest

In order to endeavor to explain the origin of interest simply, four subjects will be discussed briefly:

1. The idea of marginal utility, with special reference to its significance for interest;
2. The discount by men of the future compared with the present, as a factor in marginal utility;
3. Interest as the extent of the discounting of the future, by men;

4. A catalogue of fallacies about interest.

The Idea Of Marginal Utility

Marginal utility refers to the universal endeavor of each human being to maximize his welfare, or at least, to get the most out of life for himself according to his own set of values; or to obtain something for others, if he values something for others as worth more than the cost to himself. A man can engage in motions just for the sake of activity, as a branch of a tree waving in the wind has motion, but life has meaning in as far as it is more than that, and in as far as it has significant purpose. The purpose of a man *relative to things* is to get the most for the least. A man endeavors to maximize his welfare. Because his wants exceed what he can get, a man must (1) select what means the most for him, and (2) economize on his efforts. Each man is constantly engaging in a never-ending appraisal program. He has before him a long list of things—material, intellectual and spiritual—that he might get, and of this list he selects what he wants most, because he cannot afford to endeavor to get all that is in the list.

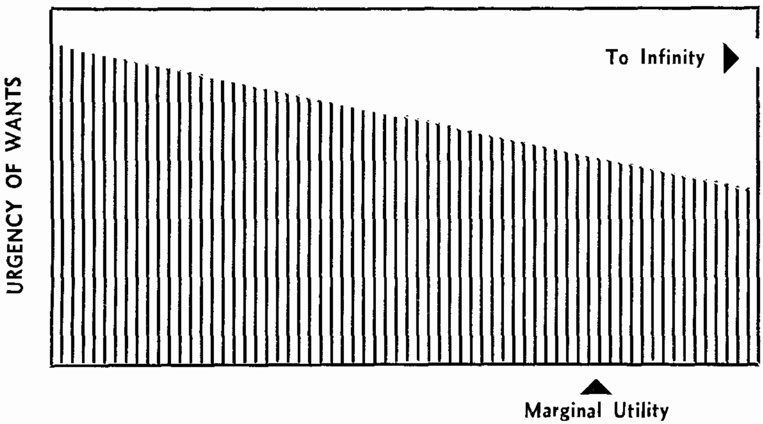
The columns in Chart I following designate the specific things from among which a man might select. Each bar or column represents a want, and the height represents the magnitude of the want.

Chart I
The Chaos Of Wants Which Motivate Men
(*Each column represents a want*)

The number of wants exceeds any capability of satisfying them. But men are finite beings, disposing over limited time, strength and means. Only *some* of the items in the foregoing list can be included. Some *must* be excluded. Those destined for exclusion are those that are least-wanted.

The process by which a man decides what he is going to enjoy, and what he will have to forgo, involves the process of *ranking the wants.* The more important the satisfaction of the particular want is to him, the higher the rank he will give it. In a sense, he rearranges the bars or columns shown in Chart I so that the chart of his choices looks like Chart II.

Chart II
The Ranking Of Wants By Men
(*Each column represents a want*)



At that location in Chart II where the limit of a man's resources of acquisition are reached an arrow on the lower margin pointing upward is shown. Nothing to the right of that can be acquired because the buyer lacks the resources. Everything to the left he can buy.

A man can change the location of his marginal utility by increasing or decreasing his total ability to acquire. If he works harder, or produces and earns more, so that he can acquire more, then his marginal utility moves further to the right; or vice versa.

But a person can also change the constituency of what is to the left of his marginal utility point. Today a woman may wish to buy a garbage disposal unit; a deep freezer; 25-years ago these items were not on her list. Today she may want an automobile of her own so that she is not restricted to staying at home, because her husband is using the family car; and, in order to reduce the investment in a second car and the operating costs, the additional car may be a compact car. In actual life these new product entrants require either that the marginal utility point be moved so that it is more inclusive, or else the new items force the removal of some other item of consumption heretofore in the list; the process is then as in a spelling bee, when one goes up another must go down in rank.

These columns do not show categories or classes of goods, but that unit-size of a good which people use in their thinking; for example, not bread as a class, but one loaf of bread (the natural acquisition unit for bread). There might be five different columns for five different loaves of bread in Chart I. When these columns for bread are ranked or sorted as in Chart II, then the first loaf may be represented by a tall column, the second by a medium-sized column, the third by a column just within (to the left of) the marginal utility point. The other two may be outside (to the right) of the marginal utility point. For that person, his way of living calls for three loaves of bread. At another time it might be four or five loaves (or even more), and at other times less than three.

Obviously, this is an unending *ranking* process, engaged in by each responsible human being, in order to regulate his life. Basically, this pattern describing reality pertains to *every kind of value* a person may have—values for himself but also for others; and values of a material, intellectual or spiritual character. But value after value jostles and jockeys for position on these illustrative charts.

At the marginal utility point the inescapable *universal welfareshortage* sets in; at this point, finite resources fail to satisfy the insatiable, and therefore theoretically infinite, demand. What is beyond the marginal utility point for a particular individual is outside his range of consumption.

The *welfare-shortage* point is not determined by money-income only. Some values represented by the colums can be satisfied or attained by non-monetary expenditure, as for example, additional personal labor requiring no money outlay.

So much for marginal utility.

The Discount By Men Of The Future Compared With The Present, As A Factor In Marginal Utility

The marginal utility figuratively presented in Chart II is affected by a time factor. Let us consider *A* and *B*. Suppose *A* very much wishes to move one of his values, reflected by a bar on the outside of the marginal utility line, to the left, that is, so that it is within the marginal utility point. But *A* lacks the resources. Suppose he goes to *B* and asks: "Will you loan me the $100 I need so that I can get a garbage disposal unit at this time, right *now*." *B* strokes his chin and thinks hard; if he makes the loan to *A*, then the marginal utility of his own expenditures must move to the left as far as *A's* moves to the right. Suppose that *B* decides to co-operate with *A*, but he bargains. *B* says to *A*: "You plan to buy a garbage disposal unit for that $100. In fact, I was going to buy one myself. If I loan you the money, I shall have to wait a year before you can pay me back. To compensate me for waiting, I must get back more than $100. I will loan you the $100, if you will pay me back $105, one year from now." If *A* wants the garbage disposal unit eagerly enough to pay that price, he will be able to buy today; *B* will postpone his purchase for a year. The $5 premium that *B* demanded is remuneration for a *time* factor.

How interpret *B's* decision to wait, on the condition that he would get $5 as his reward? What he was really saying is this: "I am living this life only once; a garbage disposal unit will be a nice thing to have right now. If I am to wait a year I feel I should get $105 back for the $100 I am now lending *A* so that he can buy that garbage disposal unit for himself at once. In other words, $100 *now* is worth more than $100 a year from now; a good available *in the present* is worth more than the same good available *in the future*. For me that difference amounts to $5."

Putting the proposition in the language of marginal utility, a garbage disposal unit available today at $100 requires $105 in the future in order that the transaction approach "equality." The equation reads: $100 now = $105 available a year from now. *The individual dollars in the $105, must obviously be "smaller"* *dollars if it takes 105 of them to equal the hundred singles in the $100 now. The future dollars have a "discount" in them. They are worth less than present dollars.*

That is what originary interest, or generic interest (call it what you will), really is; it is a measurement of the discount for what is in the future compared with what is available at present. As men "discount" the future, for perfectly rational reasons (and will continue to discount the future), the phenomena of interest is ineradicable. It is in the nature of things. It will never disappear in the present dispensation.

It will be injustice for interest ever to disappear. That will be made clear in future issues.

Interest As The Extent Of The Discounting Of The Future, By Men

Different people discount the future differently. Imprudent men or those who have poor prospects for the future, discount the future greatly; prudent men discount the future less. If the prevailing originary interest rate is 5%, then that is the average or over-all figure which is determined by all men, the prudent as well as the imprudent.

Consider how circumstances will affect a man's "discounting of the future." Consider a soldier who expects to be ordered tomorrow into the front battle line. He has $30 in his pocket. Will he value the future highly? In many cases not; he may say to himself, "On the day after tomorrow I may be dead. Those $30 will do me no good then; therefore, *the present is what counts for me;* spend the $30! A future in which I can spend this $30 may not even exist for me."

Another young man, safe at home in times of peace, and very ambitious for his future, may save every dollar he can, for marriage and his career. This man, too, makes his contribution to the final, general rate for originary interest — the general rate at which the future is discounted compared to the present.

The five percent that has here been used is arbitrary. The originary interest rate varies constantly, by time, by place.

A Catalogue Of Fallacies About Interest

There has been a long history to the endeavor to explain the origin of interest.

1. One theory is the *productivity of capital.* This is the most obvious explanation, but it is erroneous. The socialists, as good critics, blew this argument "out of the water." But today, still, many business men, being ignorant of the socialist critique which is valid, still think that interest is justified because capital is productive. These business men are guilty of a gross fallacy.

2. Another theory is that interest is the *reward for abstinence.* Ferdinand Lassalle, the fiery socialist rabble-rouser, derided the "abstinence" explanation. He ridiculed the "painfulness" of the saving of the rich. Although rhetoric is no substitute for logic, it must be conceded that the abstinence of savers does not explain the phenomena of interest.

3. Another theory is that interest is a *compensation for use.* This theory is particularly appealing as an explanation for rent on land, rent being one of the specific forms of interest in its generic sense. This argument is that the price of land and of the use of land are two quite different things. The price of the land is what it can be sold for; the price of the use of land is the rent. Behind the latter statement there lies as subtle a fallacy as the human mind can fall into. Only someone who really understands what the great medieval scholar, William of Ockham (or Occam), had in mind when he developed his formula, *Entia non sunt multiplicandum praetor nessitatem,* will be able readily to see the basic fallacy in the use argument when it separates land from the use of land. The use argument for interest, although amazingly subtle, is nevertheless a gross fallacy.

4. Then there is the *exploitation theory* about interest. This stems from two German socialists — Rodbertus and Karl Marx. They argued that originary interest was exploitation of the employee, something snitched from him by the employer. Both put forth laborious efforts — especially Marx — to prove that originary interest is cruel exploitation; that idea might be considered to be in harmony with the argument, hinted in Scripture, of the rich exploiting the poor. To deny that there are individual cases of exploitation is to deny the obvious. But as an explanation of the phenomena of originary interest the exploitation theory is the poorest. Of all the fallacies about interest, this is the grossest.

Mises On The Gist Of Bohm-Bawerk's Theory About Interest

One of the greatest economists in economic history, Eugen von Böhm-Bawerk, wrote a three-volume work with the title, *Capital and Interest.* Böhm-Bawerk declared that fundamentally interest is neither a monetary, abstinence, production, use, nor exploitation phenomenon. The evidence adduced by Böhm-Bawerk is conclusive.

Ludwig von Mises has written as follows:

> The gist of Böhm-Bawerk's theory is the cognition that interest is *not* the specific income derived from the utilization of capital goods.

If interest is basically neither a monetary, abstinence, production, use, nor exploitation phenomenon, then what is it? The answer is that it is the manifestation and measurement of a *psychological* phenomenon—a discounting of the value of future goods.

Any attempt to justify interest on any other basis is doomed to failure.

Nevertheless, the idea of Böhm-Bawerk, as summarized by Von Mises, is revolutionary to most people, and sounds novel and even fantastic to them.

"Liberty does not consist in doing what one pleases . . . liberty can only consist in being able to do what one ought to do." —MONTESQUIEU

"The biggest public park is a poor substitute for the smallest private garden."—W. ROEPKE

"The man who first ruined the Roman people was the man who first gave them things for nothing."—PLUTARCH

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