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

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Contents

Solomon Versus Marx On The Question Of Value

In economics, *value* is a peculiarly significant term. Laymen are often unaware how important its meaning is in economics.

Factors which have been alleged to be the causes of *value* fall into either of two groups. One of these groups is in the area of *supply;* the other is in the area of *demand*.

For example, if *value* depends upon *labor* or *material* that was put into the making of something, then a factor of *supply* created the value.

Contrarily, if *value* depends upon the needs and wishes of a buyer, then a factor of *demand* created the value.

The first thought of many is that a *supply* factor determines value. Businessmen often believe that; they tell you that costs determine prices. As price is a way of expressing value, businessmen (when they say "costs determine prices") are really saying that "costs determine value."

Socialists-communists are in the same category as such businessmen. Socialists-communists declare that "socially necessary labor" required to make something is the sole determinant of value. Here again, a factor pertaining to supply is set forth as the cause of value. We shall quote Karl Marx on this subject in some detail.

If a man believes that a supply or cost factor determines value, his insight is inadequate; he is a sound economic thinker only when he *ascribes value solely to demand.*

Solomon As An Economist

One of the wisdom books of the ancient Jews is Ecclesiastes. Authorship is ascribed to Solomon, king of Israel, and successor to his famous father, King David. In Ecclesiastes Solomon writes as a good economist, because he ascribes value solely to demand. Solomon wrote (Ecclesiastes 3: la, 2b, 3b, 5a, 6, 7a):

> For everything there is a season, . . . a time to plant and a time to pluck up that which is planted; . . . a time to break down, and a time to build up; . . . a time to cast away stones, and a time to gather stones together; . . . a time to seek, and a time to lose, a time to keep, and a time to cast away; a time to rend, and a time to sew; . . .

The foregoing can be restated as follows: There is no intrinsic value in anything; what was put into it does not determine value; only the use to which someone wishes to put something determines value; what has value today may be worthless tomorrow, depending on the changing needs, wishes and demands of people.

What was planted with great labor today may be not only valueless but so harmful that it must be plucked up tomorrow. Did the thing planted change? Was a factor in the supply or cost altered? Not at all; the *demand* changed, and that is why that which was planted laboriously is "plucked up." Similarly, in the case of building or breaking down; casting away stones, or gathering them; seeking or losing; rending or sewing.

In other words, *demand* dominates the economic world. Naturally, problems of supply and cost remain important, but they are dragged along behind demand like a wagon is dragged behind a horse. The *key* to *value* is *demand.*

A man obsessed with the idea of thrift may tell you that thrift is a virtue which requires that *nothing* should be destroyed. The latter proposition is false. A factory may be useful — the foundation may be good; the walls may be solid; the roof may not leak; windows and doors may be in good condition; but *depending on the purpose of men,* that is, depending on a factor in demand, it may

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be wise to wreck a factory and build another; or sell the land for a highway; or build a shopping center instead.

In the estimate of her husband, a woman can be fickle, unpredictable and wasteful in her purchase of clothing for herself, furniture for the house, and equipment for the utility room. What matters for her? She wants what she wants. Those are her *values.* He might expect her judgment to be governed by stark utility, but in the case of most women it is not — (something for which men should be thankful, because women would then look drab and houses would be unaesthetic as jails). There is, to be sure, the problem of adjusting supply to demand, cost with price; but supply and cost are only the *second* actors in the drama; the *first* actor is demand.

A man is as variable in his "demand" as is a woman. If the man manages the yard, he will be found changing the landscaping from time to time; transplanting; taking something out; putting something in. What was done a few years ago he no longer wants. Gone is the labor that went into it; the time has come to "break down." It is because his values have changed.

In this life, men being finite, circumstances ever changing and needs varying, no economic good has intrinsic value, as if something existed with value in itself. *Value is not intrinsic in the thing nor objective to the person; it is instead extrinsic to the thing and subjective in the person.* It is always that way; it is never otherwise, and therefore Solomon was right when he said you should throw away, rend and break down, as well as gather, sew and build.

Marx An An Economist

Karl Marx was not a good economist, and he lacked Solomon's penetration of judgment. Marx's position was that value is intrinsic in the thing and objective to the person, that is, value comes from the thing itself, not from a buyer.

Marx declared that a thing has value because something has been put into it. That "something" he said was the "socially necessary labor." An automobile has value because of the labor that went into assembly; into fabrication of the parts; into purchase of raw materials (for which prior labor was necessary); into machinery and buildings (for which other prior labor was necessary).

Marx, when he hitched value to labor, reversed the proper relationship. He hitched the cart before the horse. He said: something has value because it has labor in it; what he should have said was that labor was put into something because the end product was wanted and would have value.

It is not difficult to see that Marx was confused, or deliberately wrong, about "labor value." One man may require two days of work to do something; another man may easily do it in a day. Is the value determined by the inefficiency of the first man, or the efficiency of the second? Marx's proposition almost says that the harder you make it for yourself to do something, the greater the value of the product you produce; that is nonsense, and Marx realized he could not leave the matter rest there.

To meet that obvious objection Marx developed his concept of "*socially necessary* labor." This is a vague and undefinable concept, which is presumably an average, and the result of removing from the calculation the exceptionally efficient and inefficient. That makes Marx's proposition sound more plausible, but really all that he has done is create an indefiniteness that tends to obscure mental clarity on the subject.

When the writer looks out of his window he can see construction work on a repaving job. Forty years ago the street was graded by means of horses and small scrapers, and cement was hand-mixed on the job. That old paving is being torn out — as Solomon said, there is a time for destroying — and a pavement twice as wide is to take its place. There is not a horse employed on the job, and not one-twentieth of the men employed formerly. The excavation is being done by a new excavator which does the work of fifty men.

What then is "socially necessary labor?" The operator of the machine, when he clambered out of its cabin one Saturday, declared that this machine was one of the first exemplars in existence, and that no other was yet in operation in the Middle West. When new equipment becomes available, the efficiency of "labor" changes. And so "'socially necessary labor" is not a fixed measuring stick; it *cannot* be. Any idea of measuring value by a variable and varying cost is a self-contradiction. But Marx wrote ponderously to that effect.

We shall quote a critique of the Marxian theory of value, taken from opening paragraphs in Chapter I of Böhm-Bawerk's essay, *Zum Abschluss des Marxschen Systems* (which title might be translated (freely) into English as, *The Unresolved Contradic-*

tion in the Completed Marxian System). (We are using the Alice Macdonald translation):

> The pillars of the system of Marx are his conception of value and his law of value. Without them, as Marx repeatedly asserts, all scientific knowledge of economic facts would be impossible. ... I [shall] recapitulate briefly the most essential points of his argument.
>
> The field of research which Marx undertakes to explore in order "to come upon the track of value" he limits from the beginning to *commodities*, by which, according to him, we are not to understand all economic goods, but only those *products of labor* which are made for the market. He begins with "Analysis of a Commodity." A commodity is, on one side, a useful thing, which by its properties satisfies human wants of some kind; and on the other, it forms the material medium of exchange value. He then passes to an analysis of this latter.
>
> > "Exchange value presents itself in the first instance as the quantitative relation, the proportion, in which values in use of one kind are exchanged for values in use of another kind, a relation which constantly changes with time and place."
>
> Exchange value, therefore, appears to be something accidental. And yet there must be in this changing relation something that is stable and unchanging, and this Marx undertakes to bring to light. He does it in his well-known dialectical manner.
>
> > "Let us take two commodities, wheat and iron, for example. Whatever may be their relative rate of exchange it may always be represented by an equation in which a given quantity of wheat is equal to a given quantity of iron: for example, 8 bushels of wheat = 1 cwt. of iron. What does this equation tell us? It tells us that there exists a common factor of the same magnitude in two different things, in 8 bushels of wheat and in a cwt. of iron. The two things are therefore equal to a third which is in itself neither the one nor the other. Each of the two, so far as it is an exchange value, must therefore be reducible to that third.
> >
> > "This common factor . . . cannot be a geometrical, physical, chemical or other natural property of the commodities. Their physical properties come into consideration for the most part only in so far as they make the commodities useful, and so make them values in use. But, on the other hand, the exchange relation of commodities is obviously determined without reference to their value in use. Within this relation one value in use is worth just as much as any other, if only it is present in proper proportion.
> >
> > "If then we abstract [the essence] from the value in use of commodities, there remains to them only one common property, that of being products of labor. But even as products of labor they have already, by the very process of abstraction, undergone a change under our hands. For if we abstract from

> the value in use of a commodity, we, at the same time, abstract from the material constituents and forms which give it a value in use. It is no longer a table, or a house, or yarn, or any other useful thing. All its physical qualities have disappeared. Nor is it any longer the product of the labor of the carpenter, or the mason, or the spinner, or of any other particular productive industry. With the useful character of the labor products there disappears the useful character of the labors embodied in them, and there vanish also the different concrete forms of these labors. They are no longer distinguished from each other, but are all reduced to identical human labor — abstract human labor.
>
> "Let us examine now the residuum. There is nothing but this ghostly objectivity, the mere cellular tissue of undistinguishable human labor, that is, of the output of human labor without regard to the form of the output. All that these things have now to show for themselves is that human labor has been expended in their production — that human labor has been stored up in them; and as crystals of this common social substance they are — values."

With this, then, we have the conception of value discovered and determined. It is in dialectical form not identical with exchange value, but it stands, as I would now make plain, in the most intimate and inseparable relation to it. It is a kind of logical distillation from it. It is, to speak in Marx's own words, "the common element that manifests itself in the exchange relation, or exchange value, of commodities"; or again conversely, "the exchange value is the only form in which the value of commodities can manifest itself or be expressed."

After establishing the conception of value Marx proceeds to describe its measure and its amount. As labor is the substance of value so the amount of the value of all goods is measured by the quantity of labor contained in them, which is, in its turn, measured by its duration — but not by that particular duration, or working time, which the individual who made the commodity has happened to need, but the working time that is socially necessary. Marx defines this last as the "working time required to produce a value in use under the normal conditions of production, and with the degree of skill and intensity of labor prevalent in a given society."

> "It is only the quantity of socially necessary labor, or the working time socially necessary for the production of a value in use, which determines the amount of the value. The single commodity is here to be regarded as an average specimen of its class. Commodities, therefore, in which equal quantities of labor are embodied, or which can be produced in the same working time, have the same value. The value of one commodity is related to the value of any other commodity as the working time necessary for the production of the one is to that necessary for the production of the other. As values, all commodities are only specific quantities of crystallized working time."

. . . It is true that in isolated cases according to momentary fluctuations of supply and demand prices occur which are over or under the values. But these

> "constant oscillations of market prices . . . compensate and cancel each other, and reduce themselves to the average price as their inner law."

In the long run

> "the socially necessary working time always asserts itself by main force, like an over-ruling natural law, in the accidental and ever fluctuating exchange relations."

Marx declares this law to be the "eternal law of the exchange of commodities," and "the rational element," and "the natural law of equilibrium."

Such is Marx's idea on the sole source of value, namely, labor. But the idea is a fallacy, involving at least confusion, if not being disingenuous. Being, as it is, the foundation of Marx's "economics," it has resulted in all of Marxian economics being incorrect and damaging. His excuse might be that the idea of the source of value was not original with him, but was borrowed from Adam Smith and David Ricardo.

(Businessmen can offer a similar excuse, namely, that they too borrowed their ideas on value from some of the statements of Smith and Ricardo, namely, that value is based on factors of supply. True, businessmen affirm that the factors of supply that create value are broader than labor, namely, there are the factors of capital and land as well as labor, but the fact remains that they stay in the same basic category with Smith, Ricardo, and Marx, to wit, that value depends on a factor or factors of supply.)

The Neoclassicists, Or The School Of Subjective Economics

On the tombstones of Smith and Ricardo there should have been a warning slogan to the effect, "Here lies Adam Smith (or David Ricardo); the road in economics outlined by him who lies here does not continue, but has a quick DEAD END." The epoch-making work of these men reached its apex in these men themselves. For further advance a new and better understanding of value was needed — an understanding that value is founded on demand and not on supply. That is why the ideas of the successors of Smith and Ricardo (those who left unchanged the Smithian and Ricardian foundations regarding value) were really intellectually sterile — especially John Stuart Mill (1806-1873), and Alfred Marshall (1842-1924).

Only that part of the Smithian and Ricardian systems should be retained which is compatible with the school of thought, known as Subjective Economics, or Neoclassicist — the school of Jevons (1835-1882), Walras (1834-1910), Wicksell (1851-1926), but especially Menger (1840-1921), Böhm-Bawerk (1851-1914) and Mises.

Menger made the most influential and impressive transition in the thinking on the origin of value, from something *objective in a thing* to something *subjective in a person.* Menger reasoned as did Solomon in 1,000 B.C., that *demand is antecedent to value;* that value is variable and varying; that it may disappear with changing circumstances; that men give value to something and that the value is not intrinsic in a thing.

When value was discovered to be subjective, the natural thing to do was to name that type of economics, Subjective Economics. That type of economics differs radically from Smith's or Ricardo's. When Marx built on Smith and Ricardo in regard to value, and when businessmen do the same, he (and they) are simply rebuilding faultily on a base as outmoded today as the idea that the world is flat.

Other ideas of Smith and Ricardo were not equally wrong or useless. Ricardo's illuminating Law of Association or Cooperation is unaffected by his basic error in regard to *value.* Similarly, much of the great work of Smith stands. But to modernize — to validate — basic thinking in economics, it is necessary to turn to Subjective Economics.

Subjective Economics, And The Correct Explanation Of The Origin Of Originary Interest

It was only the later Neoclassicists, Böhm-Bawerk and Mises (basing their work on that reconstruction of the explanation of value which makes value depend on something subjective), who could possibly find the correct explanation for *originary interest.* (For the meaning of originary interest see pages 217-223.)

Böhm-Bawerk was not the first to note that something available in the future has a lesser value than the same thing available now, but he was the first fully to realize either its general significance in life or its decisive significance in regard to originary interest. It was because he clearly saw *the effect of time on evaluation* that he could come to clarity that all explanations of interest which fixed their attention on a supply factor — as human labor or productivity of a machine — must be defective. If interest is legitimate, which it is, a basic factor pertaining to demand would have to be the explanation of interest; that factor is remoteness in time; the more remote in time that some good is, the lesser its value.

If a man loans another $1,000 today to be repaid a year hence, then in order to make the *future* sum of $1,000 (which is universally discounted in value by men) equal to the *present* sum of $1,000 an amount of $50 (equal to the assumed prevailing discount estimated at 5%) must be added.

This explanation of interest, which is the only one that is logically correct and the only one that cannot be rebutted whereas all others can, is based on *value differentials between the present and the future.*

And so, originary interest is a special problem in *value,* namely, present value versus a discounted future value, which latter must be made equivalent to the former by the payment of originary interest.

Overvaluation Of Human Foresight In The Marxian Dictum - "All Value Is Founded On Labor"

To allege that "all value is founded on labor" involves an arrogant estimate of human judgment.

1. It assumes that labor is never unintelligently applied. Suppose you decide to put a sewer in your block in the east side of a street. But you hit a stone ledge, and must blast through rock; your cost is 2,000 hours of labor. You could have altered your plan and put the sewer in the west side of the street where there was no stone ledge. Suppose the people in the next block put the sewer in the west side of the street and it costs them only 500 hours of labor — one-fourth as much. Is your sewer worth four times as much as theirs, because it required four times as much labor? Of course not.

2. It assumes that men do not change their minds. A house was begun some distance up the street. The basement and floor were constructed. Then the work ceased. The owner decided to change jobs, and now he does not wish to live there. Apparently nobody wishes to build presently on that location and foundation. Has *value* there been enhanced by the labor applied? Indeed not. There will be enhanced value there only when somebody "wants"

that lot *and foundation*. Until that happens, the foundation will make the lot less valuable than a bare lot.

3. It assumes that life is static. One of the leading artistic designers in this country, in describing his method, expressed himself as follows: "You do a few things and see how they look; you add; change; subtract, and keep on doing that; finally you have what you want." How many "false" moves were made? Hundreds, maybe thousands. The costs of innovations are unpredictable and variable. Millions of hours of design labor end with no value attached to the end-result. "Socially necessary labor" — the term used by the socialists — implies standard merchandise; no changes; no improvements; merchandising stagnation.

4. A man's life is a record of much wasted labor. The University of Illinois some years ago sent a dozen special black walnuts which the writer planted. That was labor cost number one. The nuts all germinated and grew. After one growing season, I transplanted them, at the cost of onerous labor, because the root system of a black walnut tree grows amazingly deep in one season, something about which I was ignorant; ignorance is always expensive. I should have planted the walnuts in the first instance where I wanted the trees to be. I could have saved the transplanting labor. Did my bad judgment or ignorance, which caused more work to be required, add to the value? None. Then a neighbor complained about one of the trees. Who wishes to argue with a woman? I sawed that tree down. More labor! But that has surely not added value, because the tree is gone. Black walnut trees are not, I have discovered, handsome trees. The branches hang down in a droopy fashion. I continue to trim off branches. More labor! Are the trees more valuable? Maybe. But my spouse continues to urge for aesthetic reasons that *all* the black walnut trees *should be removed!* She has the ability to suggest it in various and sundry manners. I am desperate. What value do those trees have now? Sometimes, I sadly conclude, they are worth less than nothing; they have a dis-utility, to wit, the future sweating labor to cut them down, drag them to the back yard, let them dry, and then burn them.

The idea that those black walnut trees have a value based on the labor that has gone into them! The idea infuriates me, because I know it is not true.

It is not necessary to be an economist to realize that value does NOT depend on a cost factor of any kind, labor included.

Value *ultimately* depends solely on *demand.*

Costs are not causes of value, but are really consequences of value. Only as much *cost* is incurred as demand will tolerate. My "demand" regarding walnut trees has changed, and so the labor in them is lost.

Nor should one "reason in a circle" and say, "But demand depends on the price, and price is determined by costs." Space is not available to rebutt that fallacy here. (See Böhm-Bawerk's rebuttal in his *Capital and Interest.*)

How Men Avoid Overpricing Land

Suppose your father owns 160 acres of excellent farm land, and that you are the sole heir. You come home to the farm for an October vacation and on a beautiful morning you stand in the farm yard and look over the rolling fields spread out before you in all their rural charm. And this is what you think:

1. Some day this farm will be mine, as it is my father's now, and was my grandfather's earlier. Some day it will belong to my children, and my grandchildren; maybe for thousands of years.

2. This farm will yield an annual cash rent of $25 an acre. On 160 acres that is $4,000 a year, available year in and year out. If I and my descendants keep the farm for 2,000 years, we will collect $8,000,000 in rent, because 2,000 years times $4,000 a year amounts to $8,000,000.

Your wife comes out to stand beside you, and you address her: "Dorothy, this farm is worth millions; if our descendants keep it 2,000 years, the income (rent), without even compounding it, will amount to $8,000,000. If we compound the rent, this farm is worth hundreds of millions. Is it not wonderful?"

But Dorothy is unimpressed. She takes a quick side-look at you to see if you are normal. She knows that you cannot be drunk. She too stares over the fields, and then there is a note of sarcasm in her voice when she answers: "Eight million? Sell it as soon as you can, and buy me that beautiful $12,000 mink coat at Charles' Fashion Shop, that I never figured I could afford to own. If this farm is worth $8,000,000, you can afford to buy me that coat right now. Eight million? Why you can buy this farm for $80,000."

You become uncomfortably aware that you have made an error when you concluded something is properly priced by multiplying (1) the annual production or income by (2) the length of time that it will be available.

In fact, by the process of multiplying income by the length of time for which it is expected to accrue, results are obtained that have no meaning whatever as far as the *value* of such property is concerned.

* * *

If you wife's words sting you; if you have a capability for generalization (as Newton had); and if you exercise that capability, then you will reach an important conclusion, which will thereafter be revolutionary for all your economic thinking, to wit: *the VALUE of property does NOT primarily depend on its PRODUCTIVITY.* Real estate agents may dispute that; bankers may manifest indignation when they hear it; businessmen may feel amused; your own "common sense" may tell you that the proposition is absurd.

The fact remains, however, that the 160-acre farm which you will inherit is "worth" \$8,000,000 or more, if production really determines value. The farm, however, is not worth \$8,000,000, but (as your wife said) only \$80,000, only one-hundreth as much.

It is the exceptions which test — and maybe discredit — a rule. The rule we all are disposed to accept is that the value of something depends on its yield, or its productivity. If that is a *rule,* or a principle, and if you apply it to a farm you will inherit, and if the rule then gives you an absurd answer, and permits your wife to have a malicious note of sarcasm in her voice, why dismiss the matter without further thought, and why not examine critically the rule you are applying, a rule which you have always accepted? If there is an exception — and you were just caught in a bad one by your own wife — then the "exception proves the rule" — that is, it *tests* the rule and may invalidate it. You just valued your future inheritance by its productivity. But you must yourself know that the answer is wrong. Here is how you reasoned:

Major Premise: The productivity of something determines its value.

Minor Premise: This farm has a productivity which has a value of \$4,000 a year.

You can now come to either of two conclusions, or anything between which you are arbitrarily prepared to accept.

Conclusion (1): This farm has a value of $4,000; or
Conclusion (2): This farm has a value of $8,000,000 in 2,000 years (and a value of infinity in eternity).

Neither conclusion is worth the paper on which it is written. You cannot buy that 160-acre farm yielding $4,000 a year, for $4,000, and nobody will pay you $8,000,000.

It happens that a farm yielding $4,000 may be saleable (presently) for $80,000, that is, the price will be 20 times its net annual productivity. *Why 20 times?* At another time it may sell for 25 times its net annual productivity; or 15 times. But any figure of 15 to 25 (or a wider range) is obviously *obtained by some principle independent of productivity.*

Several months ago in FIRST PRINCIPLES there was an analysis to discover whether and how an inventor could profit from a labor-saving, cost-reducing and/or production-increasing invention. But the inventor was not able to keep all of it for himself, nor for long. *Values* apparently created by inventors and producers, or values associated with ownership, seem to slip away, as quicksilver out of a man's hand, except that there is eventually a modest amount left, something equivalent from 3% to 7% a year, something maybe averaging 5%.

We conclude then: (1) labor does not create value (see the August issue); (2) nature (land) does not create value (see the foregoing); (3) capital (an invention, machinery, a tool) does not create value (see the March, April, June and July issues). To believe that what goes into something gives it value is self-deception, a paralogism.

* * *

Having eliminated (1) labor and (2) productivity (of land or capital) from the explanation for the value of property, *then what does cause and explain originary interest,* the generic term used, in economic theory, to designate interest on money, profits in business, or rent on land?

The answer is: *the finiteness of the individual man in time, and his consequent practice of "discounting the future"* — a logical procedure for him.

What was mistaken in your calculation when you estimated that the farm you would inherit was worth $8,000,000? This: you did not *discount* — estimate as having lower value — what was to become available only in the more or less distant future. The crops being harvested and marketed this October might have for your father a value of $4,000. Suppose at the end of the month he gave you the farm. At the end of the next twelve menths you would have obtained the $4,000 return. What is the *present* value of that *future* $4,000 one year away? The answer is $3,809. Why the discount of $191 ($4,000 minus $3,809)? Because you and others normally value lower what is available in the future compared with what is available in the present. (The *prevailing* discount we have arbitrarily assumed to be 5%; we obtained the $3,809 by dividing $4,000 by 1.05. That is the same as saying that $3,809 at 5% interest will be worth $4,000 one year hence.) On this tendency to discount what is available in the future see pages 217-224 in the July issue of FIRST PRINCIPLES.

There will be a further discount of the value of the crop available only after *two* years; it can be computed by dividing $3,809 by 1.05, which yields $3,628. (This method of dividing in a chain of divisions by 1.05 simply "compounds" the discount at 5% annually.)

If on October 31 of this year your father gives you the farm, then what is the *present* value of the *future* income for the next 150 years? An analysis of what happens in 150 years will make clear that from then on the $4,000 yield annually from the farm means practically nothing — *presently.* The calculations are shown below:

TABLE I
Present Value of Future Annual Farm Income of $4,000 a Year, Ownership Beginning October 31, 1960, and the First Crop Being Available October, 1961

Crop Available Oct. 31	Time Elapsed (Years)	Present Value	Crop Available Oct. 31	Time Elapsed (Years)	Present Value	Crop Available Oct. 31	Time Elapsed (Years)	Present Value
1961	1	$ 3,809	1971	11	$ 2,338	1981	21	$ 1,435
1962	2	3,628	1972	12	2,227	1982	22	1,367
1963	3	3,455	1973	13	2,121	1983	23	1,302
1964	4	3,290	1974	14	2,020	1984	24	1,240
1965	5	3,134	1975	15	1,923	1985	25	1,180
1966	6	2,984	1976	16	1,832	1986	26	1,124
1967	7	2,842	1977	17	1,745	1987	27	1,071
1968	8	2,707	1978	18	1,661	1988	28	1,020
1969	9	2,578	1979	19	1,582	1989	29	971
1970	10	2,455	1980	20	1,507	1990	30	925
10 years		*$30,882*	*20 years*		*$49,838*	*30 years*		*$61,473*

Crop Available Oct. 31	Time Elapsed (Years)	Present Value	Crop Available Oct. 31	Time Elapsed (Years)	Present Value	Crop Available Oct. 31	Time Elapsed (Years)	Present Value
1991	31	$ 881	2001	41	$ 540	2011	51	$ 331
1992	32	839	2002	42	514	2012	52	316
1993	33	799	2003	43	490	2013	53	300
1994	34	760	2004	44	467	2014	54	286
1995	35	724	2005	45	444	2015	55	272
1996	36	690	2006	46	423	2016	56	259
1997	37	657	2007	47	403	2017	57	247
1998	38	626	2008	48	384	2018	58	235
1999	39	596	2009	49	365	2019	59	224
2000	40	567	2010	50	348	2020	60	213
40 years		*$68,612*	*50 years*		*$72,990*	*60 years*		*$75,673*

2021	61	203	2031	71	124	2041	81	76
2022	62	193	2032	72	118	2042	82	72
2023	63	184	2033	73	113	2043	83	69
2024	64	175	2034	74	107	2044	84	66
2025	65	167	2035	75	102	2045	85	62
2026	66	159	2036	76	97	2046	86	59
2027	67	151	2037	77	92	2047	87	56
2028	68	144	2038	78	88	2048	88	54
2029	69	137	2039	79	84	2049	89	51
2030	70	130	2040	80	80	2050	90	49
70 years		*$77,316*	*80 years*		*$78,321*	*90 years*		*$78,935*

2051	91	46	2061	101	28	2071	111	17
2052	92	44	2062	102	27	2072	112	16
2053	93	42	2063	103	25	2073	113	15
2054	94	40	2064	104	24	2074	114	14
2055	95	38	2065	105	23	2075	115	14
2056	96	36	2066	106	22	2076	116	13
2057	97	34	2067	107	21	2077	117	12
2058	98	33	2068	108	20	2078	118	12
2059	99	31	2069	109	19	2079	119	11
2060	100	30	2070	110	18	2080	120	11
100 years		*$79,309*	*110 years*		*$79,536*	*120 years*		*$79,671*

2081	121	10	2091	131	6	2101	141	3
2082	122	10	2092	132	5	2102	142	3
2083	123	9	2093	133	5	2103	143	3
2084	124	9	2094	134	5	2104	144	3
2085	125	8	2095	135	5	2105	145	2
2086	126	8	2096	136	4	2106	146	2
2087	127	7	2097	137	4	2107	147	2
2088	128	7	2098	138	4	2108	148	2
2089	129	6	2099	139	4	2109	149	2
2090	130	6	2100	140	3	2110	150	2
130 years		*$79,751*	*140 years*		*$79,796*	*150 years*		*$79,820*

The *present* value of the *future* income in a grouping consisting of decades is as follows:

TABLE II
Present Value of Future Annual Income of $4,000, By Decades

Decade		Dollars Per Decade	Cumulative
First,	1961-1970	$30,882	
Second,	1971-1980	18,956	$49,838
Third,	1981-1990	11,635	61,473
Fourth,	1991-2000	7,139	68,612
Fifth,	2001-2010	4,378	72,990
Sixth,	2011-2020	2,683	75,673
Seventh,	2021-2030	1,643	77,316
Eighth,	2031-2040	1,005	78,321
Ninth,	2041-2050	614	78,935
Tenth,	2051-2060	374	79,309
Eleventh,	2061-2070	227	79,536
Twelfth,	2071-2080	135	79,671
Thirteenth,	2081-2090	80	79,751
Fourteenth,	2091-2100	45	79,796
Fifteenth,	2101-2110	24	79,820
Total in 150 years		$79,820	

An income of $40,000 in the decade 140 to 150 years from now has a present value of $24. That reveals the amazing discount for time at a modest 5% a year, a small percentage which the young and the unwise consider almost paltry and worthy of neglect.

The accumulative present value of the future income in 150 years is $79,820.

Project the values still further into the future and the grand total will not amount to more than $80,000 — presto, the very figure your wife arrived at by multiplying the $4,000 annual income by only 20 years, a method which considers the annual yield to be 5% (obtained by dividing 100 by 20). It is obvious that the *method* of first dividing the interest rate into 100 gives a quotient, which can be used as a multiplier of the annual yield, which in turn correctly indicates what a property is worth, assuming that interest rate. Instead of laboriously making 150 divisions with a slide rule, posting all the quotients and then adding them as was done in Table I, all that is necessary is to:

(1) Divide the prevailing interest rate into 100.

(2) Multiply the annual income by the quotient obtained from step (1).

But in order to *understand* what the *real* process is, it is necessary to compile a table as Table I. Compiling it for yourself will give you information which will astonish you.

Who would believe that $4,000 today (1960) is worth only

$2,455	if	not	received	until	1970
1,507	"	"	"	"	1980
925	"	"	"	"	1990
567	"	"	"	"	2000
348	"	"	"	"	2010
213	"	"	"	"	2020
130	"	"	"	"	2030
80	"	"	"	"	2040
49	"	"	"	"	2050
30	"	"	"	"	2060
18	"	"	"	"	2070
11	"	"	"	"	2080
6	"	"	"	"	2090
3	"	"	"	"	2100
2	"	"	"	"	2110

Your surprise about this will be no greater than that of the writer.

It is an interesting fact that we in practice have a *short-cut* method that gives the correct result, but that few understand *in theory* what the substance of the reasoning is, to wit, that the value of land and other capital, the product of which is available only in the future, is determined by a discounting process, an evaluation system based on valuing lower what is available in the future.

Indeed, there is a factor of *productivity* — in our illustration, $4,000. The size of that figure does affect the result. But the real problem is what the discount rate is, which gives the "multiplier," which in our illustration was 20.

What your farm will be worth, using your wife's sound method of short-cut calculation, will be as follows, at varying interest rates:

TABLE III
The Value of a Farm Yielding $4,000 Annually, Depending on the Discount Rate

Annual Income From Farm	Discount Rate (%)	Value of Farm*
$4,000	3%	$133,333
4,000	4	100,000
4,000	5	80,000
4,000	6	66,666
4,000	7	57,144
4,000	8	50,000
4,000	9	44,444
4,000	10	40,000

If the computations performed in order to obtain Table I were performed by using varying discount rates as in the foregoing (that is, divisions by 1.03, or 1.04, or 1.06, etc.), then the value of your farm would be the figures in the last column in Table III.

In other words, *the value of your farm depends in part on the yield but more on the discount rate. Presumably, in a stable economy, the yield annually from the farm will average about the same without variation over a period of years; (we assumed $4,000). That leaves the other factor, the discount rate, as the volatile variable. That discount rate, as has been shown, gives the clue to what the farm is worth. The discount for time is more important in determining the value of your farm than yield.*

A 1% variation in the discount rate may appear to be a trifle, from say 3% to 4%. But the paltry 1% change will have a large consequence. As Table III shows, it involves a difference between $133,333 and $100,000, or $33,333, merely because the discount rate changed from 3% to 4%.

* * *

Obviously, when pricing land (or other capital) the one-year net yield ($4,000) is a factor. But the other factor, the multiplier, is 20 or 10 or 30 times more important, because it is the *multiplier* applied to one year's net yield. Where basically do we get the *multiplier?* From dividing (in the illustration used) the *Total* in Table I by $4,000, that is, $79,820 ÷ $4,000 = 20; or more accurately, in perpetuity, $80,000 ÷ $,4000 = 20. And behind

* Figures obtained by multiplying $(4{,}000 \times \frac{100}{\text{interest rate}})$

it all there is a *psychological phenomenon — the discounting of what is in the future.*

For a *comprehensive* treatment of the explanation of originary interest, see Böhm-Bawerk's CAPITAL AND INTEREST, Volume II *(Positive Theory of Capital)*, Book IV, pages 257ff.

Most Important Price In The World

The most important price in the world, far outranking any other price, is the "discount of the future," a discount determined by the aggregate of the people in a community. The price to which reference is being made is (1) the "cost" of borrowed money, (2) the prevailing rent on land, and (3) the prevailing return on capital; that is, the reference is to originary interest.

If present goods are in *urgent* demand, then the originary interest rate will be high, because a considerable amount must be added to future goods to make them equal, in the prevailing estimation of men, to present goods. In a poor society the need for present goods will be urgent. And so in a poor society interest rates will be high.

If a society is already opulent and people are already generally living comfortably or even luxuriously, then originary interest rates will be low, because people will be willing to wait more patiently for future goods and will not insist that a high premium be added to future goods to make them equal to present goods.

Originary interest rates are lowest in Western Europe and in the United States, areas where capital is relatively plentiful. Interest rates are highest in the backward nations of the world. They are often twice as high, or higher, in backward nations than in the most advanced.

It would be expected, if the theorists obsessed with the alleged exploitation by capitalism were right, that the more advanced capitalistically a country is, the higher the originary interest rate would be, on the assumption that it would be evidence of greater exploitation, because there was more capitalism. The figures indicate the contrary. The more advanced the capitalism, the lower the charge — the price — for equating what is in the future with what is in the present.

The rate at which capital is accumulated is affected by the "discount rate" between future and present. The balance wheel of society — how it balances off future against present — is the discount rate. The discount rate "arbitrates" between present and future generations.

The price of gold, wheat, securities on the New York Stock Market, copper or cotton are all relatively unimportant compared to the originary interest rate, or discount rate.

Attempts At Tampering With The Originary Interest Rate

The activity of tampering with — controlling — the originary interest rate — something that cannot really be accomplished — has been assigned by the people of the United States, legislating through their Congress, to the Federal Reserve Board. This is the most dangerous economic program that is being attempted in this country. One device of the Federal Reserve Board to effectuate the assignment is to vary the *rediscount* rate, that is, to vary the rate at which member banks in the Federal Reserve System can borrow from their regional Federal Reserve Bank.

The originary interest rate is a consequence of the wishes, plans, and actions of *all* the citizens — savers, spenders, shortsighted people, farsighted people, the courageous, the timid, every consumer, every businessman. How in total these all "discount the future," and consequently determine the discount rate, is a massive, relatively inert phenomenon. Attempts to control or play around with the rediscount interest rate must collide, sooner or later, with this actual rate, and then which will prevail?

Suppose, in order to stimulate business and consequently employment, the Federal Reserve Board lowers the rediscount rate below the originary discount rate. That means that businessmen who make decisions on the basis of the *quoted rate* will believe that the public is prepared to postpone consumption more, to allocate more of present consumption to a delayed consumption, that is, that businessmen can expand their operations, build more plants, buy more machinery. The lowered, quoted discount rate is *assumed* to be evidence that the future can be taken care of better, because the present is so good already; and that therefore only a lower rate needs to be added to future goods to make them equal to present goods; in other words, the assumption is that the real originary interest rate is as low as the artificially lowered rediscount rate.

The purpose of tampering with the rediscount rate is to stimulate the industries that are known as capital-goods industries. These are the industries that expand when the populace is prepared to allocate to the future a larger share of present effort, an allocation consisting of building plants and equipment that will not yield their full return until decades into the future. The extent to which the public is prepared to do that is truly revealed by the originary interest rate — the higher the rate, the more people are neglecting to pay attention to the future; they do that by demanding a big addition to the price of what is to be available in the future, compared with the present; in order to be willing to hold off consuming something now in order to obtain something else that will be available in the future, they demand, say, 10% extra because it is available only in the future; that is the high originary interest rate that they demand in order to raise future values to present values for themselves. Or they may, contrarily, be prepared to accept a lower addition to what is available in the future in order to make it equal to the present, that is, the originary interest rate is genuinely lower. They might then ask only a 3% addition annually to make future values equal to present values. Such an event would result in businessmen expanding their productive capacity, because the cost to supply the future had been lowered to 3%.

The capital goods industries are, then, properly constricted by rising originary interest rates, and unleashed by declining originary interest rates.

The presumptive theory in the United States is that the Federal Reserve Board can *arbitrarily* affect the originary interest rate by its own rediscount rate changes — changes unrelated to the real intention of John Public.

John Public understands little of all this. John Public continues to go his fairly steady way in regard to future versus present. He does not necessarily have in mind a shift from present goods to future goods, as those who conduct their course by the decrease of the rediscount rate of the Federal Reserve Board think will occur. The new plants may be built, but the public may not be prepared to allocate so much to the future; they may want present goods, not future goods. The new investments then prove to be uneconomic; the plants cannot be completed; the product cannot be sold; businesses are blighted or they fail. Then there is a depression. Instead of creating stability and prosperity, the statute under which the Federal Reserve Board is operating (ostensibly to promote stability and employment), actually is a cause of instability.

The consequences of unsound financial policies, executed by the Federal Reserve Board in compliance with the law of the land, have been concealed under a series of inflationary steps. Most recently (summer of 1960) these inflationary steps have consisted in easing member bank reserve requirements. Either of two consequences of the present financial policy of this country is inescapable — either inflationism or a depression. It will probably eventually be both — first inflationism and finally a depression.

The grand strategy of unsound financial policies in the United States consists in tampering with our most massive, irresistible economic phenomenon — the appraisal by all men of present versus future. The ultimate consequence may be an economic, political and social revolution, as "earth-shaking" as the French Revolution.

The United States today is an *opulent* society, but it is not a *soundly prosperous* society. Political campaigning is going on in connection with the four-year election of a president. The platforms of both parties endeavor to entice voters by promises of greater prosperity. To be able to do that, it will be necessary to return to first principles in morality and economics. Neither of the parties is prepared to do that. Efforts to influence the originary interest rate must be abandoned.

What the people of the United States "want" — although the average citizen may not be able to formulate a specific program for himself — is a program that promises stable prosperity rather than boom opulence. A secure prosperity cannot be attained by tampering with bank rediscount rates in order to have them affect the originary interest rate.

Originary Interest (Or Discount) Must Not Be Confused With Gross Interest

There is, as has been stated in earlier issues of FIRST PRINCIPLES, no "quotation" of the originary interest or discount rate. In a sense, the concept of originary interest is an abstraction.

The actual interest rate being paid, in a given case, will contain:

1. The originary interest rate.
2. An additional amount, as a hidden insurance premium, to compensate the lender for the risk that the borrower may not repay.

This premium may be infinitesimal or it may be large (to compensate for a loan being very risky). This part of the interest rate is not interest in an economic sense, but an insurance charge.

3. An adjustment for expected increases or decreases in the prices of goods. This factor is associated with the changing ratio of money to goods and services, especially as a consequence of inflation (the immoral increase of the money supply by the issuance of fiduciary media). If a man loans $1,000 today to another, but has conclusive grounds for expecting that a year hence, when he is to get his $1,000 back, prices will be 5% higher, then he will demand as an interest rate, not only 5% originary interest, and an insurance premium (a small percentage maybe, say 1/8%), but also another 5%, that is, 5% plus 1/8% plus 5%, or 10 1/8%. Contrarily, if it is *sure* that prices will drop 5%, then the formula will be 5% plus 1/8% minus 5%, or 1/8%; in other words money will carry a lower gross rate of interest under such circumstances.

4. Finally, there is a "bargaining" factor; a lender may be demanding and overcharge, and a borrower may be imprudent; *that* may result in the rate being higher than "normal." Vice versa, the lender may underprice and the borrower may be more astute; that may result in the rate being lower than "normal."

But the solid, relatively steady factor in the gross interest rate will be the *originary* portion of it.

* * *

Originary interest as a generic term includes rent and profits. Here, too, the solid, relatively steady constituent item (in rent and profits) is the originary portion of it. But these forms of "interest" are also responsive to the same factors of risk premium, price trends up or down, and "bargaining," and the actual rent and profits rates will reflect that. In the case of rents and profits the "extraneous" factors of insurance, price trends, and bargaining skill are more variable. For example, profits may be extraordinary, say 20%; but they can be the reverse; instead of any profit there may be a loss of 20%; or even of the whole investment.

The "play" of actual or gross rates above and below the originary rate may appear confusing, and may incline some to ignore the "hard core" of originary interest in the published interest rates, but to do so is to fail to understand the essence of "interest," as the term is used in the science of economics.

In the illustration used earlier (the $4,000 rent on a farm), it is, of course, unrealistic to consider the rent of the farm *fixed* at exactly that amount. The rent will fluctuate, as do all things in life. But *that* will not affect the interest or discount rate, but the price of the farm. In other words, variations in productivity affect the price of the principal amount and not the discount rate. If the productivity of the farm rises to $6,000, the price of the farm goes up — that is, the price goes up enough so that the "yield" is back to 5%; in other words, the farm then commands a sale price of $120,000; the discount rate remains unchanged at 5%; for when the 5% is applied to $120,000, the answer is $6,000.

Productivity in a business affects the price at which investors "capitalize" the business, but not the originary interest rate.

It may appear to be unfortunate that the *published* interest, rent and profit *rates* contain a number of items which are not "pure interest," but there is no avoidance of the problem. If analysis of the return on capital is to be revealing, the constituent items in the gross interest rates must be separately considered. The most important item to "abstract" from the total is *originary* interest.

A Good Book: "Essays In European Economic Thought"

Occasionally, a singularly good book of essays is published, and this is one of them.

The authors of the respective essays are Carl Menger, Friedrich von Wieser, Ludwig von Mises, Paul Painlevé, Jacques Rueff, Ludwig Pohle, Luigi Einaudi.

Menger's name is one of the greatest in the history of economic thought, and he was founder of the Neoclassical school of economics. Here there is made available in English for the first time one of his outstanding essays, "A Systematic Classification of the Economic Sciences" (1889).

Maybe the best thing that Wieser ever wrote is his, "The Theory Of Urban Ground Rent" (1909). This is the second article in the book.

The article by Pohle carries the title, "A Critical Examination of Current Doctrines Concerning Wage Rates and Unionism" (1912).

The brief essay by Mises, greatest of living economists, carries the title, "The Nationalization of Credit" (1929).

Painlevé, late premier of France, is represented by an essay, "The Place of Mathematical Reasoning in Economics."

Rueff is a distinguished Frenchman, and outstanding economist. He is a judge at the Court of Justice of the European Coal and Steel Community. He is influential in the De Gaulle administration. He is a man who may yet be able to do for the financial and economic welfare of France, what Ludwig Erhard has already done for Western Germany. Rueff's essay carries the title, "A Letter to the Advocates of a Controlled Economy" (1949).

The last essay is by Einaudi, statesman and economist, who served from 1948 to 1955 as president of the Italian Republic. The striking title of Einaudi's contribution is "The Doctrine of Original Sin and the Theory of the Elite in the Writings of Frédéric LePlay." We shall give this article special attention for reasons which will become apparent in the following article.

Einaudi apparently has written a series of essays on books in his library. He has figuratively "toured" his own library.

The author of the books and ideas discussed by Einaudi in this essay is a French engineer, named Frédéric LePlay, who worked — of all subjects! — on family budgets. LePlay wrote books (reports) on his findings, and inspired others to engage in similar research and write similar books. The subject sounds prosaic and even boring, but it is not, as Einaudi's delightful essay amply substantiates. Einaudi himself appears to be genuinely "sympathetic" to his subject, LePlay, and to LePlay's ideas.

Add to "family budget statistics" the Christian religion's idea of "original sin" (as the title of Einaudi's article indicates) and you have a combination of statistics and religion from which most people will shy away with alarm.

This reviewer, however, has read few things recently which has pleased him more than LePlay's ideas. LePlay was no woodenish statistician nor naive "believer." He addressed himself to crucial questions; he asked, according to Einaudi:

> Why is a man — and he means a man of the people, the peasant, the laborer, the miner, the foundry worker — satisfied or dissatisfied? Why does he wish either to change his position or to remain where he is? *Why is one society prosperous and stable and another unstable or disorganized or corrupt?* [Our italics.]

Questions as the earlier ones in the quotation are interesting and significant, but questions as the last — what makes a "society prosperous and stable" — are crucial.

We lack space to define LePlay's terms or summarize his argument, but his answer has two facets:

1. Men are *not* naturally good; men are not corrupted by society, as Rousseau taught; the evil in society stems from men themselves — their co-complicity in original sin, and their natural depravity. On this point Einaudi quotes LePlay who in turn quotes St. Augustine in regard to a small infant's rage against and jealousy of another infant. Augustine, in the passage quoted, indicates that when Christ took a small child and used it as an illustration in the statement, "Of such is the Kingdom of God," he could not have referred to the spiritual goodness of the child nor its humility, but merely to the smallness of its physical stature. It was that physical smallness which was a good illustration of humility, not the soul of the child, because that (according to prevailing Christian doctrine) is not good, but tainted and depraved. LePlay, therefore, rejects, as a starting point for a philosophy of the nature of man, any idea of man's innate goodness. Man's original nature does not make society prosperous or stable.

2. *For a society to be good and stable it must be based on the Decalogue.* Einaudi describes LePlay's views as follows:

> . . . the positive criterion of the prosperity of a society under the rule of the elite is the extent to which the Decalogue is observed: the worship of God and the prohibition of idols; the honor accorded to parents, and the observance of the injunctions against taking the name of God in vain, killing, stealing, giving false testimony, committing adultery, and coveting the goods of another. These are the rules whose observance in private and public life leads a people to prosperity, and whose violation leads it to ruin. LePlay made individual studies of hundreds of families under the most diverse conditions — physical, historical, and political; scrupulously analyzed the material and intellectual circumstances of their lives; and, in seeking the basic causes of happiness and of unhappiness, of prosperity or poverty, he invariably referred to the Decalogue and studied the attitude of men towards its specific commandments. This is the magic key that opens to us the secrets of a people's history.

Those two principles of LePlay: (1) man is not by nature good, and (2) he must conform to the Decalogue in order to get along well, are also basic principles in First Principles in Morality and Economics.*

Conservatism and traditionalism do not make a society prosperous. Liberalism and progressivism do not make a society prosperous either. There is another ingredient which it is necessary to associate either with conservatism or liberalism, and *that ingredient is conformity of conduct on the part of the members of a community to the Law of God.* (See the next article.)

Most of the contributors to this book are liberals — grand and distinguished liberals. They are champions of freedom, which is marvellous. But what makes the book, *Essays in European Economic Thought,* so unique and so balanced is the fact that it contains an article which summarizes so admirably what *must* be added to freedom in order to make it tolerable, namely, restrictions which restrain a man (while exercising his own freedom) from injuring his neighbor. As Sallust proudly and maybe boastfully said of the contribution of Roman conquerors to the vanquished, the Romans restricted those whom they had vanquished no more than that they thereafter were *prevented from doing wrong.* Similarly in order to have a good and stable society, freedom must be harnessed into a team; the other necessary "horse" consists in conformity to the Decalogue — restraint against indubitable, specific evils.

The publisher of this book is the D. Van Nostrand Company, Princeton, New Jersey. The price is $6.00. Dr. Louise Sommer is translator and editor. It should be added that this book is one of The William Volker Fund Series in the Humane Studies. From the books already published in this series the expectation may be formed that this series will be a remarkable one.

Conservatism, Liberalism, Law-Liberty, Collectivism and Philanthropism

1. *Conservatism* as a philosophy of life has merit, but it is not possible for First Principles to be "conservative." Times and circumstances change, and the solutions of problems require that new facets be taken into account. Friedrich von Hayek has excellently stated the case against conservatism in his lecture, "Why

* (That does not, however, commit us in any way to the error of Job's friends, nor make us unaware or indifferent to the necessity of the phenomena of grace.)

I Am Not a Conservative," given some years ago at a meeting of the Mt. Pelerin Society.*

2. *Liberalism* appeals to us much more. We are prepared to run the risk of changing with changing times; of letting each man follow his own bent and regulating his own life. We are opposed to attempted compulsory uplift by group or state action. If a man wishes to eat too much, play too much, risk too much, that is "his privilege." We should try to educate him away from living unwisely, but if he will not listen, we wipe the "dust of responsibility off our shoes" and pass on. We reject the alternative — that we can tell a neighbor individually that he *must* reform his manner of living, or that we tell him collectively that he *must* live as we want him to live. We are opposed to *uplifting* him compulsorily; leave him his *liberty* or *freedom,* and if need be let him waste *his* life, destroy *his* future, blight *his* opportunity.

The dynamism in society — the chance and prospect of progress — depends on such freedom by individuals. To freeze everything by conservatism may keep a society from sinking fast, but it will also prevent it from changing and maybe improving.

The theme song of liberalism is liberty, one of the marvelous words in language.

3. In contrast to Conservatives and Liberals, we are *Decalogue men.* We believe society should be founded on the Law of God and not on liberty. This does not commit us to endeavoring to apply puritanical restrictions to other people. As has just been explained, there is a time to wipe the dust of responsibility off one's shoes. We concur with what the Christian religion teaches, to wit, that we are not our "brother's keeper." We believe that a man should be permitted to ruin *himself,* if that is his determination — if he will not listen to advice and admonition. *He should not have free rein to ruin others; that is where the Decalogue comes in.*

The Christianity that is dangerous is the kind that will not wipe the "dust of responsibility" off its shoes, but instead has recourse to trying to *coerce* people into being good. There are two kinds of notes sounded in Scripture; one is, to drag the converts in; but the other is, to tell people the gospel, and then leave them to

* The lecture is reprinted as a Postscript in his new book, *The Constitution of Liberty,* The University of Chicago Press, Chicago, 1960, p. 397ff.

their own devices; *Scripture never recommends recourse to compulsion after persuasion fails.**

In First Principles we are committed to the proposition that a man should not be permitted to try to pull himself upward by dragging someone else down. Society is, therefore, in our book, founded on certain prohibitions, especially (1) the prohibition against coercion (thou shalt not kill, maim, engage in coercion — the Sixth Commandment in the Decalogue); (2) the two prohibitions against theft of mate or of property (thou shalt not commit adultery, and thou shalt not steal — the Seventh and Eighth Commandments, respectively); and (3) the prohibition against deception and fraud (thou shalt not bear false witness — the Ninth Commandment). Instead of compelling people to submit to being lifted up, and by so doing being "uplifters," we are in favor of preventing people from being "down-draggers" of others. For that purpose we believe the law should be used. The law is to restrain evil, and not to compel to do good. The law should go no further. In fact, the Hebrew-Christian moral law relies on *compulsion* only to restrain evil, and on persuasion *only* in order to accomplish doing good. This is a vital distinction.

4. There is a fourth category — *collectivism.* Collectivists are not conservatives, nor liberals, nor Decalogue men. They are would-be demi-gods, who are so sure that *they* know what is good for others, or who at least love power for themselves so much that they believe government should be conducted according to *their* ideas — whether those are selfish or altruistic. These people may be the worst kind of rogues — men of violence and evil; or they may be fanatic idealists, promoting a sanctimonious ethic. But, in any event, they are *exploiters* of others, in the sense that they are

* The incident recorded in the New Testament which substantiates that is well known; Matthew, Mark and Luke all record it. Christ was giving instructions to his disciples as he was sending them on a preaching tour. He said (Matthew 10:14):

> Whosoever shall not receive you, *nor hear your words*, as ye go forth out of that house or that city, shake off the dust of your feet.

Not only does this forbid having recourse to coercion after persuasion has failed, it even sets a termination point to persuasion! People who profess the Christian religion will do well to note the position taken in this instance. Elsewhere in Scripture there is strong language advising not to "throw pearls before swine." The emphasis in these cases is on what Christ wanted his disciples to do and not to do; *the corollary is the complete freedom of hearers; they were to retain their uninhibited liberty.*

prepared to insist that *their own* ideas prevail by force when necessary. Collectivists cannot conform consistently to Christian ethics.

5. There is a fifth category of people, who take on the cloak of high religion and declare that sacrificing the self for others is the rule on which society must be founded. They teach that the highest ideal is *philanthropy,* based on *agape.* (See Volume III, pages 181-182; Volume IV, pages 306-309; and Volume V, pages 374-384.) These people are some of the most dangerous in society, and among the most subversive. They would found society on *beguiling but destructive charity* rather than on *noncoercive, constructive cooperation.* They do not realize adequately that charity is usually damaging to the recipient; and they have no understanding whatever of — have never even heard of — Ricardo's Law of Cooperation, which makes clear the inescapable *mutual* benefits of *cooperation.* (See Volume IV, pages 200-224; 229-255; 259-264.)

* * *

We cannot unite with Conservatives or Collectivists, nor with those who are philanthropists and are fanatics for "brotherly love" or "charity;" but under certain conditions we can unite with Liberals.

Liberals believe in freedom; supplementary to that they usually assume adherence to the Decalogue, or at least the Sixth, Eighth and Ninth Commandments. But while they emphasize liberty, many of them are more or less silent about the "Law." It is that silence about the Law that exposes them to suspicion and critique by others. Why should not a man, instead of merely eulogizing and claiming liberty, also not eulogize and embrace the Law of God as expressed in the Decalogue?

We do not here refer to law *in the abstract,* as something that is restricted to being a uniform rule for everybody, the strong as well as the weak, the ruler as well as the ruled. That is, indeed, a "rule of law" of sorts. But it is not a *specific rule* of law. It does not so much concern itself with the *content* of the law, as with the *application* of the law. Not that such an idea of uniform and invariable application is not good; it is; but it does not go far enough. Such advocates of "rule of law" trust in a law arrived at empirically — by experience — and they trust that further experience will make the law tolerable, because everybody will be "under" it, and if it is not a salutary law, then "experience" will see to it that whatever is burdensome in the law is corrected. But the idea of a *revealed* law, or a law *already fully validated by experience* — a Law as the Decalogue — that is a concept of Law which some Liberals will not accept, or if so only tacitly.

On the basis of the foregoing, Liberals who are silent about the Law, may exclude us from the status of being *liberal;* we may not be "liberal" enough. But how much liberty does Christian ethics permit a man to have? To that the answer is: *all liberty any right-minded man should ever want.*

Is there improper restraint on a man by Christian ethics? Not as we see it. Hebrew-Christian law goes no further in restraining liberty than prohibiting men from doing wrong.

* * *

Advocates of Christian freedom have been as derelict in stating their *whole* doctrine, as have been those liberals who emphasize freedom but are silent on the moral law (the Decalogue).

A typical representative of sound Christian ethics (not the man who presents a perversion of Christian ethics as in the paragraph foregoing, numbered 5) often neglects to present his full doctrine. How should he formulate it? Something like this: you may not perpetrate the evils forbidden in the Decalogue, *but all else is free, do what you please, live as you wish, possess your birthright of liberty without other inhibitions.*

If the question is asked, how big is such an area of liberty and how big is the area of prohibition, we would say that the former is 95% and the latter, 5%. The area of freedom, the area beyond the restraint of the Decalogue, is boundless, illimitable for any man, except as he is a finite being. (See Volume I, pages 54-78.)

A Liberal then, in the best sense, is a man in favor of liberty, supplemented by an explicit moral law.

A Christian moralist then, in the correct sense, is a man in favor of the restraint of the Hebrew-Christian moral law, supplemented by freedom.

In First Principles we represent Law *and* Liberty in the senses just defined. Our position is not described in terms of liberty only nor law only, but law *and* liberty. Our position might be called that of law-liberty.

In conclusion, when we have chosen for an "order" for society based on the Decalogue, that is, on the Hebrew-Christian Law of

God, then we have chosen maximally for liberty, because we have left all men *free in everything, except* that in the field of ethics they are forbidden to injure others by coercion, theft and fraud. That is a liberty based on law, and may properly be described as law-liberty.

It is because the book reviewed in the preceding article has such a fine selection of essays — fine because *both liberty and law* are emphasized in one or more of them — that we have commended the book so highly; Einaudi, using LePlay's ideas as his subject matter, has most admirably called attention to a phase of liberalism which needed emphasis. At least, it is a phase of liberalism which we in First Principles consider a necessary part of liberalism.

Indeed, what is more true than that no one ought to be so foolishly proud as to think that, though reason and intellect exist in himself, they do not exist in the heavens and the universe, or that those things which can hardly be understood by the highest reasoning powers of the human intellect are guided by no reason at all? [Page 389.]

In truth, the man that is not driven to gratitude by the orderly courses of the stars, the regular alternation of day and night, the gentle progress of the seasons, and the produce of the earth brought forth for our sustenance — how can such an one be accounted a man at all? [Page 389.]

For the man who rules efficiently must have obeyed others in the past, and the man who obeys dutifully appears fit at some later time to be a ruler. Thus he who obeys ought to expect to be a ruler in the future, and he who rules should remember that in a short time he will have to obey. [Page 463.]

For it is not so mischievous that men of high position do evil — though that is bad enough in itself — as it is that these men have so many imitators. For, if you will turn your thoughts back to our early history, you will see that the character of our most prominent men has been reproduced in the whole State; whatever change took place in the lives of the prominent men has also taken place in the whole people. [Page 495.]

—Marcus Tullius Cicero
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