# FIRST PRINCIPLES
## IN MORALITY AND ECONOMICS

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



VOLUME VI NOVEMBER, 1960 NUMBER 11

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# Determination Of Price With Two-Sided Competition

*(Continued From The Preceding Issue)*

## Price Formation And Justice

In a modern industrial-commercial society—that is, in a society with extensive exchanges of goods and services between individuals—exchanges are not by barter (which is a clumsy manner of exchanging), but by buying and selling. To buy and to sell, as distinguished from bartering, involves having a medium of exchange, that is, *money.* The terms of purchase and sale are consequently expressed in terms of a *price.* Prices touch the very essence of exchanges of goods and services between individuals.

A most significant question is: in an industrial-commercial soceity *what are the relationships between prices and justice?* If most of what a man makes is sold by him, and if most that a man needs is bought by him, and if such transactions are arranged on the basis of *price,* then *price formation* lies at the heart of *justice.* It is, consequently, singularly pertinent to analyze thoroughly the *price-formation process.*

The first and simplest analysis of price-formation, which has been made, and is truly illuminating, is that published by Eugen von Böhm-Bawerk in Volume II of his *Capital and Interest,* pages 207 to 256.

In the previous issue (October), the first three of Böhm-Bawerk's four analyses were reproduced, namely, price-formation (1) in isolated exchange, (2) with one-sided competition among buyers, and (3) with one-sided competition among sellers.

But the mass of exchanges (purchases, sales, payments) are not under one of these three conditions, but instead are under "two-sided competition," that is, the exchanges take place under circumstances involving several buyers, competing with each other to buy; and several sellers, competing with each other to sell. *Reality* in price-formation in the modern world is represented by two-sided competition in exchanges of goods and serv-

Published monthly by Libertarian Press. Owner and publisher, Frederick Nymeyer. Annual subscription rate, $4.00. Bound copies of 1955 through 1959 issues, each $3.00. Send subscriptions to Libertarian Press, 366 East 166th Street, South Holland, Illinois, U. S. A.

ices. (In addition, there is a still broader and more important competition, namely, *multi-sided competition,* that is, *competition between different products.* Such competition is not being discussed in this issue.)

*  *  *

Böhm-Bawerk, as in the earlier cases, is using in his analysis of two-sided competition the buying and selling of horses. In regard to two-sided competition he writes:

**Bohm-Bawerk's Eight Sellers Of Horses And Ten Buyers**

The case of two-sided competition is both the most frequent occurrence in practical life and also the most important for the development of the law of price. We must therefore devote to it the most thorough attention.

The typical situation which this sort of case presupposes can be represented by Table I. That table conveys the picture of ten willing buyers and eight willing sellers each of whom wishes to buy or to sell, as the case may be, one horse. At the same time the table indicates the degree of subjective valuation applying to each of the candidates for exchange with respect to the commodity in question. The irregularity of the variation of the figures for those valuations is quite in keeping with the actualities of economic life. In actual fact the individual conditions of supply and demand which determine subjective value vary so widely that it is hardly possible that any two persons place exactly the same subjective value on any one thing.

The table is as follows:

**TABLE I**

**Buyers And Sellers Of Horses In Two-Sided Competition**

| Ten Willing Buyers | | Eight Willing Sellers | |
|---|---|---|---|
| Designation | Each Man's Valuation Of One Horse | Designation | Each Man's Valuation Of His Horse |
| Aa | $300 | Ba | $100 |
| Ab | 280 | Bb | 110 |
| Ac | 260 | Bc | 150 |
| Ad | 240 | Bd | 170 |
| Ae | 220 | Be | 200 |
| Af | 210 | Bf | 215 |
| Ag | 200 | Bg | 250 |
| Ah | 180 | Bh | 260 |
| Aj | 170 | | |
| Ak | 150 | | |

It is necessary to add to the foregoing description of the situation that all parties are present in the same market at the same time, that all the horses offered are equal in quality, and finally, that all the candidates for exchange are free from any misconception regarding the market situation which could prevent them from effectively pursuing their own interest. Once more we ask, "What happens in this situation?"

The reader's awareness of the difficulties and his pleasure in solving the problem, will be enhanced if he takes pencil and paper, and sets himself the task of solving the problem by his own method.

## I. BAFFLING AND CONTRADICTORY RESULTS FROM VARIOUS COMBINATIONS OF PAIRS OF BUYERS AND SELLERS

His first inclination will be to make a quick effort to "match" buyers and sellers, and provide a snap answer.

When he examines the data in Table I, he soon realizes that he can "match" several ways:

(1) High-price buyers matched to low-price sellers. (In this case, he works down the two columns, pair by pair.)

(2) Low-price buyers matched with low-price sellers. (In this case, he works up the buyer column and down the seller column.)

(3) High-price buyers matched with high-price sellers. (In this case, he works down the buyer column and up the seller column); and

(4) Low-price buyers matched with high-price sellers. (In this case, he works up the two columns, pair by pair.)

### Matching High-Price Buyers With Low-Price Sellers. Method No. 1

The way the buyers and sellers are listed in Table I makes it natural to begin by trying to match buyers and sellers simply by working down both columns; that is the way we read, and so we endeavor to solve as we read.

Buyers and sellers are listed with high-price buyers first and low-price sellers first. *Aa* is the first buyer listed, a buyer willing to pay $300 for a horse; *Ba* is the first seller listed, a seller willing to sell for $100. And so on down the columns.

When the reader comes to buyer *Ae* willing to buy at $220, and to seller *Be* willing to sell at $200, he realizes that these two can make a deal between $200 and $220.

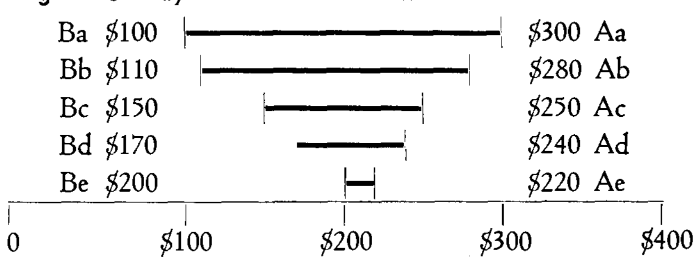
From that point on, it appears no more exchanges can take place, because the sellers want more than the remaining buyers are willing to pay. On that basis, five horses will be sold, and no more.

And what will the price be? The first question to consider in that connection is whether these horses, all equal, are to sell at the same price, or different prices. Should *Aa* pay $300 and *Ae* $220? Should *Ba* sell for $100 and should *Be* get $200? Or should the price be *equal* for all buyers and sellers? There are, then, three questions: (1) who is to be included in the deals, (2) should the price be equal, and (3) what should the price or prices be?

Chart VI shows the possible "range" of prices for each pair of buyer and seller.

**CHART VI**

**Range Of Prices For Each Pair Of Buyer And Seller, When High-Price Buyers Are Matched With Low-Price Sellers**




(*Dollars as price for a horse*)

Under this matching system there can be five different prices. The market will be chaotic.

The first pair can "horse-trade" between $100 and $300; the fifth pair can "horse-trade" in a much narrower range, between $200 and $220.

Obviously, if there is to be uniformity of price, on the ground that uniformity of price is a requirement for justice, then the foregoing way of matching buyers and sellers is inappropriate, and will have to be abandoned.

Further, this system "isolates" each pair, and lets the bargaining strength of each buyer and each seller, *uninhibited by competition,* have free rein within the limits set by their respective subjective valuations. This is really not a *market,* but purely isolated trading.

A conclusion may be reached: Method No. 1 is not desirable.

(Note: Other combinations of pairs, affecting details somewhat, can be arranged in this and in the following cases as well. But these variations were not considered worthy of the space required.)

### Matching Low-Price Buyers With Low-Price Sellers. Method No. 2.

In this case, we work up the original data in the buyer column and down in the seller column, in Table I. So that we can *conveniently* work down both columns again, we rearrange the data appearing in Table I to get Table II; the buyer column is inverted.

**TABLE II**

**Buyers and Sellers of Horses in Two-Sided Competition**

| Ten Willing Buyers | | Eight Willing Sellers | |
|---|---|---|---|
| Designation | Each Man's Valuation Of One Horse | Designation | Each Man's Valuation Of His Horse |
| Ak | $150 | Ba | $100 |
| Aj | 170 | Bb | 110 |
| Ah | 180 | Bc | 150 |
| Ag | 200 | Bd | 170 |
| Af | 210 | Be | 200 |
| Ae | 220 | Bf | 215 |
| Ad | 240 | | |
| Ac | 260 | Bg | 250 |
| Ab | 280 | Bh | 260 |
| Aa | 300 | | |

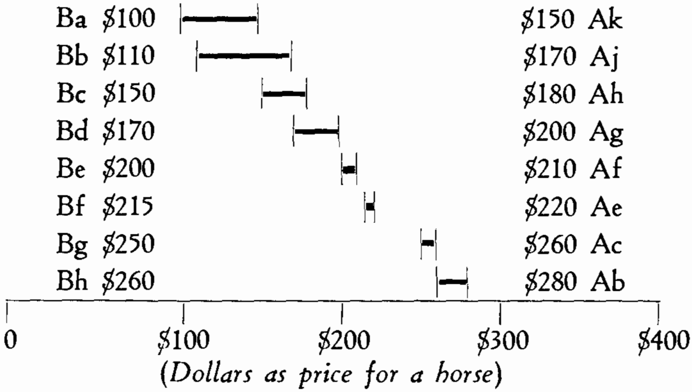
In this case, all eight horses can be sold. There can in this case be eight different prices, depending on the skill of the eight sets of traders. Chart VII shows the situation in this case, in a manner parallel to the situation shown in Chart VI.

This case has an added peculiarity, to wit, two buyers who were willing to pay much, *Aa willing* to pay $300, and *Ad*, $240, are both excluded. (However, the pairing could be different; instead of excluding the high-price buyers, the pairing could have excluded two of the low-price buyers.)

Justice? How can the sellers have had justice when the

**CHART VII**

**Range Of Prices For Each Pair Of Buyer and Seller, When Low-Price Buyers Are Matched With Low-Price Sellers**




best and fourth-best buyers, ready and willing and able to pay $300 and $240 respectively, were excluded?

Method No. 2 must be adjudged inadequate and unacceptable.

### Matching High-Price Buyers With High-Price Sellers. Method No. 3.

In this case, again for easy analysis, we arrange the figures, originally shown in Table I, by reversing the seller column and beginning with the high-price sellers. This gives us Table III.

**TABLE III**

**Buyers And Sellers Of Horses In Two-Sided Competition**

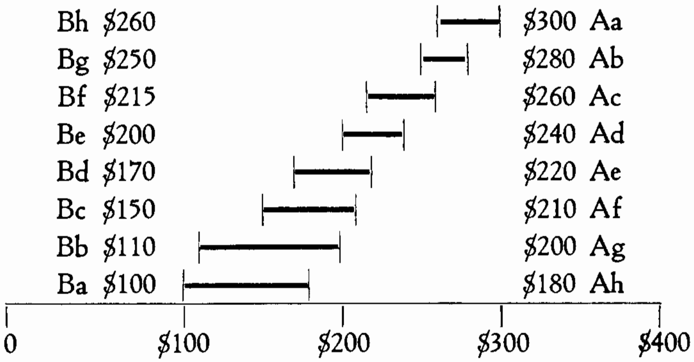
| Ten Willing Buyers | | Eight Willing Sellers | |
|---|---|---|---|
| Designation | Each Man's Valuation Of One Horse | Designation | Each Man's Valuation Of His Horse |
| Aa | $300 | Bh | $260 |
| Ab | 280 | Bg | 250 |
| Ac | 260 | Bf | 215 |
| Ad | 240 | Be | 200 |
| Ae | 220 | Bd | 170 |
| Af | 210 | Bc | 150 |
| Ag | 200 | Bb | 110 |
| Ah | 180 | Ba | 100 |
| Aj | 170 | | |
| Ak | 150 | | |

It is quickly obvious that when this system of pairing is employed all eight horses will be sold. The only buyers left are *Aj* and *Ak*, who were willing to pay $170 and $150 respectively for a horse. There were, in fact, two sellers who would have been willing to sell for $100 and $110 respectively, but they were able to get more than $170 from the buyers with whom they were paired.

Chart VIII shows the range of prices for the eight trades.

**CHART VIII**

**Range Of Prices For Each Pair Of Buyer and Seller, When High-Price Buyers Are Matched With High-Price Sellers**




(*Dollars as price for a horse*)

Again, this is not a *market*, but a number of isolated sales. Each pair is uninfluenced by other buyers or sellers. The pairs are, as it were, in water-tight compartments. Almost surely, the eight horses, of equal quality, will nevertheless have eight different prices, determined by the pairing and the trading skills of the men in each pair.

### Matching Low-Price Buyers With High-Price Sellers. Method No. 4

In this case, the figures in both columns in Table I are reversed, and we get Table IV, as follows.

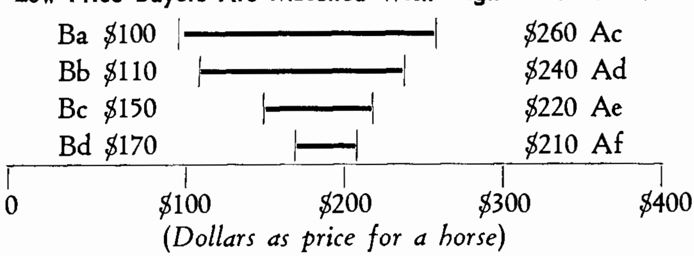
Four horses will be sold. Excluded buyers will be *Ab*, willing to buy at $280; and *Aa*, willing to buy at $300; the excluded sellers will be *Be, Bf, Bg* and *Bh*.

Graphically, the situation is portrayed in Chart IX.

## TABLE IV
### Buyers And Sellers Of Horses In Two-Sided Competition

| Ten Willing Buyers: Designation | Ten Willing Buyers: Each Man's Valuation Of One Horse | Eight Willing Sellers: Designation | Eight Willing Sellers: Each Man's Valuation Of His Horse |
|---|---|---|---|
| Ak | $150 | Bh | $260 |
| Aj | 170 | Bg | 250 |
| Ah | 180 | Bf | 215 |
| Ag | 200 | Be | 200 |
| Af | 210 | Bd | 170 |
| Ae | 220 | Bc | 150 |
| Ad | 240 | Bb | 110 |
| Ac | 260 | Ba | 100 |
| Ab | 280 | | |
| Aa | 300 | | |

## CHART IX
### Range Of Prices For Each Pair Of Buyer And Seller, When Low-Price Buyers Are Matched With High-Price Sellers




The remarks made in the preceding cases, apply one way or another here, too.

### Conclusions, From Foregoing Attempted Quick Solutions

It is apparent from the foregoing that the solutions attempted are invalidated by eager and superficial over-simplification. Individual pairs of buyers and sellers are matched *arbitrarily* just to get a quick answer. But by that process the answers can be so varied that they are worthless.

In the foregoing, *four* patterns of solutions were attempted; we began with high and high, or low and low pairs, etc., but what was to prevent us from selecting *any* pair on a different basis? Nothing. Answers that might be obtained are as numerous as the permutations mathematically possible.

The deficiency consists in that a solution has been attempted without assuming a *market.* A market at least requires that buyers begin by underbidding and finally bid what they are willing to pay, and that sellers begin by over-asking and finally ask what they are willing to sell for. They *compete* with each other.

The existence of a *market* assumes in addition to the foregoing that *each* buyer endeavors to play his need off against *all* sellers, and that *each* seller endeavors to play off his wish to sell against *all* buyers. Every man in the situation is motivated by his own peculiar motivations, by the "pursuit of his self-regarding interests." His basis is his own individual *subjective* evaluation. Those valuations differ more or less for every person. (*Selfishness,* correctly understood, must motivate every seller, more or less, otherwise he would *give* his horse away and not bring it to market.)

Each man begins by disclosing a little of his subjective evaluation. As the bidding and asking proceeds, each man is compelled to reveal, to all the others, more and more what his evaluation is. The market, however, does not reveal *everything* about the evaluations of the buyers and sellers.

The "struggle" of the participants in the market is to *find one single price for all.* Probably most people would agree that that is "justice." If that is not justice, then the question is: what is justice *otherwise?* a *varied* price? and *how* should it be determined?

* * *

It is desirable to imagine a horse market, an acre of ground with an ample number of hitching posts. To this place the men who have horses to sell bring their horses and hitch them to a post they select. To this place, too, come the buyers. Further, there will be spectators, people who are curious; horse grooms who want a fee to curry the horses; veterinarians who may be consulted; money lenders who may be prepared to help a buyer who lacks the necessary ready cash; and others.

In actual fact, every horse will be different in age, height, weight, build, color, etc. The prices arrived at will attempt to allow for all those differences. But in order to keep the problem as simple as possible, in this imaginary horse market, all the horses are assumed to be identical. After the buyers have looked all the horses over, they say to themselves: there is no difference in *these* horses; they are all alike.

From this point on a description of what happens in order to determine the market price for horses is left to Böhm-Bawerk (see his *Capital and Interest,* Volume II, page 221ff.). We quote in part and with minor variations. (When checking from text to Table, see the original Böhm-Bawerk table on page 323, labelled Table I.)

## II. BOHM-BAWERK'S ANALYSIS

**Wise Buyers Exercise Restraint And Do Not Reveal Their Real Positions Immediately**

*Aa,* whose individual circumstances cause him to value a horse at $300, would consider it to his advantage to buy even at a price of $290, and each of the eight sellers would certainly be most eager to sell his horse to *Aa* at such an advantageous figure. But obviously *Aa* would be acting most unwisely if he were to buy prematurely at so dear a price. For his interest demands not merely that he gain an advantage—any advantage at all—but that he gain a maximum advantage through the exchange. To that end he refrains from precipitately making the highest offer to which he could at the worst agree. He will prefer, instead, to begin with just as low offers as do his competitors of lesser capacity for exchange, and he will consent to raise his offer only at such time and to such extent as becomes necessary to prevent his exclusion from the exchange.

Similarly, *Ba* could, economically speaking, very well sell his horse for $110 and could very easily find buyers at that price. But he will carefully hold back from agreeing to the lowest offer that he *could* possibly accept, and will make his offer to sell only just low enough to remain in the competition at all for the sale.

The transaction will therefore presumably begin with restraint, the willing buyers, on the one hand, offering low prices and the willing sellers, on the other hand, exhibiting the same restraint by demanding high prices.

Let us assume the buyers begin with an offer at a price of $130. It is clear that in the absence of some gross error in the understanding of market conditions no sale will be concluded at that price. For all ten buyers place the value of a horse at over $130 and all ten would be willing to buy, while only two horses could, economically speaking, be offered at that price—the horses owned by *Ba* and *Bb*. It is clear these two sellers would be acting just as unwisely by failing to utilize for themselves the competition among the buyers to bring about a raising of the sale price, as would the buyers if they allowed the most advantageous purchase opportunities to be snatched away by two of their number without making an attempt to gain an advantage for themselves by offering a price somewhat higher, but still very advantageous. Hence, just as in the case described on page 315, there will have to be a sifting out of some of the large number of buyers through attempts on their own part to outbid each other. How long will that keep up?

At $150 all ten buyers can still remain in the bidding. From that point on the competitors with the least capacity for exchange must drop out, one after the other. At $150 *Ak* is forced to drop out, *Aj* likewise at $170, *Ah* at $180, *Ag* at $200.

But at the same time, as prices rise there is an increase in the number of sellers for whom participation in the exchange becomes an economic possibility. From $150 up *Bc* can give serious thought to the matter of making a sale, at $170 *Bd* can do so, and at $200 *Be* can, too.

Thus gradually there begins a shrinkage in the discrepancy, which at first yawned so widely, between the number of horses desired and the number effectively offered for sale. At $130 there was an effective demand for *ten* horses and only *two* could have been economically offered for sale. Now, at a price of more than $200, there is an effective demand for only *six* horses and there are already *five* that can be offered for sale. The number of willing buyers exceeds by only one the number of competitors able to sell.

### Purchases And Sales Must Be An Even Number

Nevertheless, as long as the number of those desiring to buy is in excess at all, and this aspect of the market condition is correctly perceived by all parties, the business cannot be consummated.

For one thing, the sellers still have the possibility of exploiting the excess in number of competing buyers to increase the price still more, and they have the inducement to do so.

For another thing, the conflicting interests of the buyers compel them to continue to outbid each other. For *Af* would be making a poor defense of his interests if he supinely submitted to the action of his five competitors in buying the five most cheaply offered horses "from under his nose." For in that case *Af* would have absolutely no chance at all to make an exchange and hence to gain an advantage through such exchange.

At the same time none of *Af's* competitors can permit him to acquire one of the five highest priced horses offered for sale. For if that happens, then the one who withdraws in *Af's* favor, though he could still, to be sure, buy the horse he needs, would then have to get it from among the remaining less favorable exchange possibilities, the ones that are offered by the more stubborn sellers *Bf*, *Bg* and *Bh*, and then, too, at a price which *at the least* exceeds the subjective valuation that *Bf* places on his horse and hence exceeds $215.

Thus the realization of their advantage impels all the buyers to continue to outbid each other above the $200 mark.

An important change in the situation takes place when the rising offers each the $210 mark. Now *Af* is forced to drop out of the number constituting the "demand" and there are now only five making a demand aligned opposite five willing sellers. Since all the former five can be simultaneously satisfied, there is no longer any reason for them to drive each other out of the market by raising their bids. On the contrary, it is to their common interest, as against the sellers, to close their transactions at the lowest possible price. Hence the outbidding by the buyers which up to this time prevented a purchase being closed, now comes to an end, and *it is possible* to close at a price of $210.

### The Second Phase Of The Higgling On The Price

But it does not follow that the closing *must* be at that price. It is possible that the sellers can be stubborn and that, hoping for still higher prices they refuse an offer of $210. What happens in that case? At first the willing buyers, in order not to fail finally to accomplish their purpose, will continue to bid. But they are getting close to their limit. For if the price demands of the sellers should exceed $220, then *Ae* would also have to forgo making a purchase and there would then be five willing sellers aligned opposite four willing buyers. In that case one of the sellers would have to drop out. And since nobody wants to be the one to do the dropping out, motives will function that are similar to those that actuated the overbidding by the buyers when they were in the majority. Except that now there will be alternate *under*bidding by the sellers, who in number exceed the buyers until the fifth seller has found a buyer. And he finds him below the $220 mark.

In fact, in our concrete example the price limit would have to be somewhat lower still. For as long as it were a question of a price exceeding $215, a sixth possible seller would arise in the person of *Bf*. His joining the ranks would put the sellers in the majority as against the five buyers and that would impose on those six sellers the necessity of taking measures to avoid being excluded from the exchange. And those measures would consist in underbidding each other. Not until the weakest party to this competition meets defeat is the issue settled. And that defeat is the portion of *Bf* in the moment when the price demands of the competing sellers go below $215. At that moment the number of competitors in the group of sellers becomes equal to the number in the group of buyers, and that price is attained which constitutes the only one at which competition ceases.

Hence we find in our example, (which pre-supposes economic behavior of all competitors and correct perception by them of the condition of the market) that the zone within which the price must of necessity be determined, lies between the limits of $210 and $215. For only within that zone do we have the only situation that meets the two conditions necessary to completion of the transaction. Firstly, all the parties who are still in a position to "talk business" can at that price gain an advantage. Secondly, all those who cannot at that price gain an advantage, that is to say, the excluded competitors, have no power to interfere in the business of the others.

What has Böhm-Bawerk accomplished by this analysis?

To answer that it is necessary to realize that he had two requirements or objectives in mind: (1) to obtain *one* price, and (2) to have an *even number* of buyers and sellers (purchases and sales). These two objectives go together, but number one is—must be—*antecedent* to number two.

In the wrong manner attempted earlier in this article, we began by pairing, regardless of a *single* price being obtained; contrarily, Böhm-Bawerk from the beginning consistently has kept in mind, in his calculation, that one market price was the goal of the higgling.

His second step was to solve his problem further, after he had six willing buyers and five willing sellers. He had to determine whether he could find a willing sixth seller. In any event, he had to have a pair. He was unable to find a sixth willing seller, and so there were finally only five pairs.

His final step was to bring down the upper range of the price as far as the last excluded would-be seller was willing to go (from $220 to $215).

*That* was his systematic method.

> Let us cull from this long presentation of the facts those fruits which offer nourishment for our theory of price. We may deduce answers of broad validity to four questions. Two propositions concern the persons of the groups effecting an exchange, two concern the price at which the exchange is made.
>
> **Question And Answer No. 1**
>
> *Our first question reads: "Among the competitors seeking to exchange, which ones actually succeed in doing so?"* Our example gives us a completely precise answer; it is: *The competitors in both groups possessing the greatest capacity for exchange.* That is to say, it is the willing purchasers who place the highest value on the commodity (*Aa* to *Ae*) and the willing sellers who place the lowest value on it *(Ba* to *Be).*
>
> **Question And Answer No. 2**
>
> *The second question is: "How many competitors on either side consummate an exchange?"* The answering of that question is important, inasmuch as the definitiveness of the price laws we intend to set up must, as we shall soon see, depend on that answer. Let us begin by looking once more at our example. Five pairs effect an exchange. If we observe closely, we note that they are the same five pairs who, regarded individually, meet the economic requirements necessary to an exchange. That is to say, it is true of both members of each pair that each of them, as a contracting party, places a higher value on what he is to re-

ceive than he does on that with which he is to part. All those pairs of whom that cannot be said are excluded from accomplishing an exchange.

It is easy to convince ourselves that this is no mere fortuitous result, but rather a result based on inner necessity. There are two ways of so convincing ourselves—we can either multiply the number of concrete instances, or we can examine in detail the process by which the result came about. And in the course of doing so we shall also become convinced that the number of pairs is limited to such a number as we find meeting the required conditions when we pair them off in descending order of their capacity for exchange, first pairing together those with the greatest such capacity, next those with the second greatest such capacity, and so on.

We may therefore formulate the general rule as follows: The number of competitors of each class—buyers and sellers—who actually effect an exchange may be determined by pairing off the competitors in descending order of capacity for exchange. The number of pairs making an exchange will then be equal to the number of pairs in which, in terms of quantity of the medium of exchange, the willing buyer places a higher valuation on the commodity than does the seller.

Böhm-Bawerk in the foregoing reveals another feature of *his* method of solution, namely, he aimed his search for the selection of pairs to those with the greatest capability of exchange, that is, he arranged his pairs according to the listings in Table I (and not as in Tables II to IV, in which *we* "experimented").

The third and fourth questions concern price directly.

**Question And Answer No. 3**

The *third* imposes the requirement that we establish that all exchanges effected under the influence of competition at any one given time are all consummated *at an approximately uniform price.* We did that in our example where we demonstrated that all five pairs would negotiate their exchanges at prices falling within the limits of $210 and $215.

**Question And Answer No. 4**

The most important question is the *fourth,* namely, *"At exactly what price is this uniform or 'market price' established?"*

In no event may it be in excess of the valuation by *Ae,* and in no event inferior to the valuation by *Be.* For otherwise the price would have been so high, on the one hand, that the fifth buyer would have been excluded, or it would have been so low, on the other hand, as to exclude the fifth seller. And with either one excluded, no equilibrium would have been established.

But it is also true that the price could in no event be higher than the valuation by *Bf,* nor lower than that by *Af.* For otherwise there would have been an addition, on the one hand, of a sixth bidder to the ranks of the willing buyers, or on the other hand, of a sixth competitor to the ranks of the willing sellers. And again the equilibrium would have been destroyed and there would have been no escape from a continuation of the over- and under-bidding until the price had been forced within the limits already noted.

Let us couch that conclusion in general terms.

*Where there is two-sided competition the market price will become established at a point within a range having an upper and a lower limit.*

*The upper limit is determined by the valuation by the last buyer to come to terms and the valuation by that excluded willing seller who has the greatest capacity for exchange.*

*The lower limit is determined by the valuation by the last seller among those to come to terms, and the valuation by that excluded willing buyer who has the greatest capacity for exchange.*

The determination of the limit by two valuations must be interpreted to mean that that valuation will prevail which in each instance makes narrower the range within which the price must fall.

Now in the above formulation let us discard the cumbersome and detailed description of the four persons described as the determining factors and employ the short and descriptive term of "marginal pairs." Then we arrive at the following most simple formulation of the law of price. *Market price is established at a point within a range which is limited and determined by the valuations by the two marginal pairs.*

The result thus attained leads to a number of speculations which become significant for the total concept we must formulate of the process by which price is determined.

### Price Is Determined By Subjective Valuations

Pre-eminent among the objects of such speculation is the striking analogy between the determination of price and the determination of subjective value. The subjective value of a good is set up as a "marginal value" and is determined by the final utility which is situated at the very limit or margin of the economically permissible. And this is true quite irrespective of the more important uses to which certain individual examples of the total supply of the good may be devoted. In the same way every market price is a "marginal price" and is limited by the economic condition of those competing pairs who are situated at the very limit or margin of the "capacity for exchanging."

Furthermore, it will be readily perceived that this analogy is not the caprice of coincidence, but rather a manifestation that related underlying causes in both cases bring about related results. In the case of subjective valuation the motive of economic advantage imposed the requirement that the available supply of a good must be utilized to satisfy wants in the descending order of their importance, whereby some particular want is satisfied last and thus designates the "marginal utility."

In the case of determination of price the motive of economic advantage of the participants imposes the requirement that the pairs of contracting parties having the greatest capacity for exchange shall consummate exchanges in descending order of such capacity. The progression must reach one last pair which thus becomes the "marginal pair."

In the former case there was assurance of the satisfaction of all wants surpassing the marginal utility in importance, even without the specimen which was being evaluated; and the only utility dependent on that specimen was the final or marginal utility.

In the latter case there is consummation of exchange, even at higher or lower prices, on the part of all pairs surpassing the marginal pair in capacity for exchange; and the only pair whose fate is dependent on that exact price—neither higher nor lower—is the final or marginal pair.

And finally, just as in the former case it is the importance of the last dependent want which, by virtue of this relationship of dependence, assigns to the good its value, just so in the latter case is it the economic circumstances applying to the last pair of contracting parties which assign a price to the good being exchanged—and again this takes place by virtue of that same relationship of dependence.

But the foregoing analogy by no means exhausts the relations between price and subjective value. It is of greater significance that *price is, from beginning to end, the product of subjective valuations.* Let us retrace our mental steps. It is the relation between the subjective valuations placed upon the good and its medium of exchange which determines who can entertain any idea at all of entering the competition to exchange the one for the other—that is to say, it determines who possesses "capacity for exchange."

That same relation determines the degree to which each competitor possesses that capacity. For each one of them it establishes with inexorable exactitude the point up to which his economic advantage demands that he continue to compete and just as exactly the barrier which forces him to concede defeat and to withdraw to the ranks of those whom his competitors have outbid and thus excluded.

In further consequence, that relation determines who among all the competitors possessing the "greatest capacity for exchange" shall really consummate an exchange; it determines who shall occupy the position of marginal pair, and hence it ultimately determines how high shall be the price at which the actual exchange takes place on the market.

Hence we may say that throughout the entire pricing process—insofar as it takes place on the basis of purely self-regarding motivations—there is not a single phase, not a single feature which could not be traced back to subjective valuations as the underlying cause and, basically, it is entirely natural that that should be so. For we know that our subjective valuations indicate to what extent, if at all, our well-being depends on a given good; hence they are the natural, if not indeed the only possible guide for our actions whenever we acquire or relinquish goods solely in the interest of our well-being.

We are therefore fully entitled to describe price as *the effect that results in the market from the reciprocal impact of subjective valuations of goods and of their media of exchange.* [That media is either money or other goods.]

**Excluded Competitors Do Not Influence Price, Except The Marginal Excluded Pair**

It is, to be sure, a resultant of a peculiar kind. The measure of price does not derive merely from the sum or from the average of all the valuations that are made. These exert quite a variety of influences on the determination of the resultant price. A certain portion of them, namely the valuations of the excluded competitors, exert no influence at all, with the single exception of that excluded pair which possesses the greatest capacity for exchange. As to all the rest, it would make no difference if ten times as many of them were represented in the market, the result would not be changed one iota.

In our own example the excluded competitors *Ag, Ah, Aj, Ak* might be present in the market or not; the category of those "excluded" might be represented by those four or by hundreds of additional competitors, all of them not in the position to bid more than $200 for a horse. In any case the resultant price will inevitably be determined, as before, at a point between $210 and $215, as can easily be demonstrated. The excluded competitors can swell the market crowd but they are not a factor in the market situation which governs the determination of price.

**The Neutralizing Effect Of Non-Marginal Buyers And Sellers**

There is a second group which plays a very peculiar role, and that is the group of valuations made by all the pairs of contracting parties actually consummating an exchange, excepting the final pair. The effective influence exerted by that group of valuations consists entirely in the fact that they check and neutralize each other. Let us look once more at our typical example. If we seek to determine what contribution the presence of *Aa*, let us say, makes to the determination of price, we discover that it serves to offset one member of the opposing group, such as *Ba;* and it does this so effectively that the pricing process goes on in exactly the same way as if *Aa* and *Ba* were not present in the market at all.

Similarly, one can easily convince oneself that the effectiveness of *Ab, Ac* and *Ad* consists solely in that they cancel the effectiveness of the opposing *Bb, Bc* and *Bd.* With all of them present in the market the resulting price is determined at a point between $210 and $215; if all of them together were absent from the market, then *Ae* and *Be* would effect an exchange between them at a price between $210 and $215.

At the same time it should be pointed out and emphasized that, as far as this result is concerned, *the degree of the subjective valuations* which belong to this group is a matter of complete indifference. For instance *Aa* in our table makes a valuation which we placed at $300; but he would be no more and no less of an offset for *Ba* if that figure amounted to only $250 or even $220. And, on the other hand, even if the figure were $2,000 or $20,000 this fantastically high valuation would not benefit the resulting price at all. Its entire effectiveness would still be completely absorbed in its neutralization of *Ba*.

But even though we deny to the valuations by this group *any direct influence* on the determination of the resulting price, it can nevertheless by no means be maintained that they exert no influence whatever. For the valuations that belong to this group — in our table they are those by *Aa, Ab, Ac,* and *Ad* — by neutralizing the valuations by an equal number of the opposing group — our *Ba, Bb, Bc, Bd* — serve a double purpose.

In the first place they prevent a stronger competitor than *Be* among the sellers from acquiring membership in the marginal pair which does directly determine price.

And in the second place, they prevent a situation in which the strongest competitors among the sellers, being themselves no longer offset, can move along to neutralize the next strongest competing buyers and so bring it about that instead of *Ae* some still weaker member of the group of buyers acquire membership in the determinative marginal pair.

We can therefore most accurately formulate the role played by all those exchanging pairs whose capacity for exchange exceeds that possessed by the marginal pair. And we can do so in the following words. *They do not, by their valuations, exert any direct influence on the determination of the resulting price; but they do exert an indirect influence insofar as, by their reciprocal neutralization, they reserve the position of marginal pair to some other definite pair.*

**The Crucial, Price-Determining Pairs**

There is, finally, a third and very small group of valuations which play a conclusive and deciding role in the determination of price. That group comprises the valuations of the marginal pair. They and they alone are the component forces the resolution of which exercises the directly effective influence which results in a market price of a definite magnitude.

All weaker competitors attempting to effect an exchange, be it remembered, are *ipso facto* without influence on price; all stronger competitors neutralize each other; only the marginal pairs remain.

At first glance it may well appear to be strange that so few persons, and particularly persons so lacking in prominence, should be able to swing the decision which governs the fate of the whole market.

But a closer examination of the situation will reveal this to be perfectly natural. For if all are to make an exchange at *one and the same* market price, then that price must be so set as to suit *all* persons who make the exchange. Now every price which suits the contracting parties possessing the least capacity for exchange, must naturally suit all persons with greater capacity for exchange in correspondingly greater degree.

But we cannot add to that statement "and vice versa!" And for that reason the economic situations of the *last pair* to whom the price must be acceptable or of the first pair to whom it must be unacceptable, must necessarily set the measure of price.

This furnishes us with the premise of a remarkable conclusion. For it is by no means ineluctably necessary that every disturbance in the reciprocal relation of both exchanging parties (or in what so many like to call "the relation between supply and demand") bring with it a disturbance of the market price. Quite on the contrary, all those changes are without effect which fail to disturb the situation of the marginal pairs. For they alone are determinant.

Let us state that in greater detail. Any increase or decrease in the number of *excluded competitors* is irrelevant; every increase or decrease in the *intensity of valuation on the part of those persons* is likewise irrelevant, provided it is not of such magnitude that they cease to be "excluded" competitors.

And, finally, every increase or decrease, (even a unilateral one), in the *intensity of the valuations on the part of competitors actually effecting an exchange* — except for the marginal pair — is also irrelevant provided only that such persons are not thereby removed from the ranks of effective buyers and sellers.

Only two kinds of change are really significant. One is a change in the valuations on the part of those persons who comprise the *marginal pairs;* the other is a unilateral change in the *number of persons whose capacity for exchange exceeds that of the marginal pairs.* For this last change brings about a disturbance of the equilibrium, it necessitates the exclusion of one or more competitors, and it introduces different elements into the factors determining the marginal pairs who, in turn, directly bring about a determination of price.

### Only One Law Determines Price, Not Four

All this brings us face to face with the question as to the relation which exists between the price law we have developed for cases involving two-sided competition and the three other formulations of law pertaining to the simpler cases of isolated exchange and one-sided competition. Must we deal with four independent laws governing no fewer than four different varieties of price phenomena?

The answer is, that we do not. The formula last worked out includes all those applying to earlier cases. It is the most complete of the four formulations and expresses a conformity to a single law which just as truly underlies all the earlier cases. It is merely that those earlier cases represent a simpler, nay, what one might term a stunted combination of facts, and that the law therefore appears in a somewhat stunted form. For inasmuch as in the earlier cases certain elements, which the complete formulation declares to be price-determining, are entirely lacking, there is therefore quite naturally a smaller number of limits which fix the range within which the price must be set. But all those price-determining elements which are present at all, exert their influence in exactly the same way as they do in the case of the principal formulation.

### A Summary Of The Psychology Of What Happens In Price Determination

Let us review. Of all the results we have attained in this chapter, the one that is by far of greatest import is the fact that all the influences which function in the determination of price have been resolved into subjective valuations and a rational appraisal of their functioning. And I do really believe we have here hit upon the simplest and most natural, and indeed the most productive manner of conceiving exchange and price. I refer to the pricing process as a resultant derived from all the valuations that are present in society. I do not advance this as a metaphorical analogy, but as living reality. To begin with, in the pricing process there are genuine *forces* in action — not physical forces, of course, but psychological. They are the *desires* which those wishing to buy harbor for a good and which those wishing to sell harbor for the money to be obtained for the good. Naturally the intensity of this force is measured by the magnitude of the utility which the individual promises himself from the desired good in the furtherance of his welfare — that is to say by the (absolute) magnitude of the subjective *value* which his valuation accords it.

Now the market is the place where reciprocal cravings for goods belonging to others may legally be translated into effective action. But those forces cannot go into action in untrammeled strength, for each is accompanied by a certain inhibition. That inhibition consists in the desire to retain possession of what is one's own. The exchange goods of others cannot be acquired without parting with something of one's own. The more difficult it is to persuade oneself to take the latter step, the more strongly is the impulse toward the former inhibited. The intensity of the inhibition, of course, is in proportion to the importance possessed by the good to be parted with, for one's own welfare — that is to say the magnitude of its subjective value.

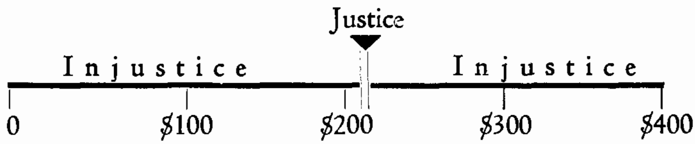
All that follows then becomes quite simple. Competitors who have the smallest capacity for exchange feel the inhibition to be stronger than the force and therefore the latter, being completely inhibited, can exert no effective influence in the way of external results. These individuals neither effect an exchange, nor can they exert any influence on the conditions under which others consummate exchanges. In the case of competitors with greater capacity for exchange the avidity with which the goods of others are coveted is stronger than the desire to retain what is theirs — the force is greater than the inhibition. There remains therefore an excess of force which in their case leads to an actual transfer of goods. Now this very excess of force, which is greatest in the competitors possessing the greatest capacity for exchange would in and of itself be capable of influencing the determination of price in direct proportion to its own magnitude. But this perfectly understandable interest of the competitors having greater exchange capacity does not by any means go so far as to induce them to offer as much as in the most extreme case they *can*. Rather does it move them to offer barely as much as they *must* in order to succeed. They "succeed" in this case if they force out supernumerary competitors and thus assure for themselves a place in the ranks of those effectively consummating an exchange. And so they deliberately refrain from setting in motion the full force of their superior power an exchange, and are content to do just so much as the least of their own number is capable of doing and is compelled to do in order to maintain his superiority over the competitor next behind him. And therefore it comes about as a perfectly natural result that the standard for the determination of price is derived from the economic situation of the last of the "ousters" and the first of the "ousted," or as we expressed it earlier, from the subjective valuations by the marginal pairs.

### The Range Of Justice In Two-Sided Competition

A chart can now be drawn similar to Charts III, IV and V, but in this case of two-sided competition, to show where "injustice" ends and where "justice" exists.

**CHART X**

**Justice And Injustice In Two-Sided Competition**



(*Dollars as price for a horse*)

*The higgling of the market has been narrowed by competition to a range between $210 and $215.* Bargaining *strength and skill* has, by competition, been restricted to this limited range.

But below $210 and above $215 the price will be "unjust" because then either some seller or some buyer will be *coerced*. Justice is not compatible with coercion.

(*To be continued*)

## The Market Price Of Freely Reproducible Goods

Two-sided competition between buyers and sellers *of horses* has been described in detail in the foregoing. That description pertained to a situation as of a particular day. On that day there were eight would-be sellers and ten would-be buyers of horses.

On the next day, however, the situation might turn out to be radically different; there might be more sellers and less buyers, or vice versa. The market is, if men have freedom, in a constant flux.

Let us assume that the market of horses is "good," that is, that the price is greater than the cost of breeding and growing them. Then, because the production of horses is profitable, producers of horses will increase breeding operations. But the supply of horses will not be greatly increased by that process in less than 4 years. The gestation period of more than a year cannot be reduced, and a horse is not considered mature until three years old. Furthermore, mares seldom have more colts than one at a time. In the case of horses, the supply, therefore, is not, quickly adjustable to demand.

Sometimes, the supply is adjustable even more slowly than in the case of horses. In other cases, the supply may be adjustable more quickly. It depends on the item.

The more quickly that supply can be increased profitably to meet strong demand, the sooner there will be sellers who will "exploit" the good margin between selling price and costs, by increasing production.

In other words, the price of all freely reproducible goods tends to be lowered by suppliers, by their increasing production to a point that the marginal pairs set a price so that no more will be "earned" from selling that item, than the modest originary interest of 5%, more or less.

There is, therefore, a constant tendency for prices of freely reproducible goods to be reduced until they are only slightly above costs. *Abnormal* profits are like bubbles in ginger ale, which effervesce and disappear.

The situation is, of course, radically different in the case of an item the supply of which *cannot* be increased. Similarly, too, an unusual margin of profit may be retained if the seller has a monopoly position, or if a group of sellers combine to form a monopoly. In these latter two cases, the price situation is that described under "one-sided competition among buyers," on pages 315-317. When there is *one* seller and *many* buyers, the lone seller has the "whip hand."

## Reprint Of Bohm-Bawerk's "Value And Price"

Böhm-Bawerk devoted 135 pages in his *Positive Theory of Capital* to the subjects of *value* and *price*. In preceding issues and in the foregoing only a small part of what he wrote has been quoted.

*Positive Theory of Capital* is the second volume in Böhm-Bawerk's three-volume work, which has the general title, *Capital and Interest.*

A paperbound reprint of "Value and Price" is available at the price of $2, from the Libertarian Press, South Holland, Illinois, U. S. A.

Böhm-Bawerk is one of the greatest economists in the history of economic thought, and his writings are generally esteemed as classics. The section on "Value and Price" is one of the most distinguished sections in his famous work.

# Moses And Christ As Realistic Thinkers



## The General Versus The Specific

There is some talk in the Old Testament about *brotherly love,* but it is not extreme. Instead, there is emphasis on specific *rules for action,* Thou shalt not do this or that. The real emphasis is on the "law and the prophets."

In the New Testament the words, *love* and *brotherly love,* are scattered profusely through its pages. The new formulation of the command concerning brotherly love is here mostly *general,* namely, Thou shalt love God above all, and thy neighbor as thyself. A proper question is, what do those two *general* statements about love mean?

The word *love* is not defined in the statements about loving God most, and neighbors equally with the self.

In regard to the second of them, the common assumed interpretation of the word love is: have a subjective attitude of goodwill toward all men.

*Rules for action,* about which Moses was admirably explicit in the Old Testament, appear to have had a tendency to become a *vague sentiment* in the New Testament. The specific negatives, *Thou shalt not,* appear less important, and instead we have a high-sounding positive, *love thy neighbor as thyself.* The later formulation of the rule is much inferior, as a guide for *action.*

Whereas in Moses's time there was limited patter about brotherly love, and in Christ's time there was considerable conversation about it, Christ and His contemporaries realized that they would, unless they were careful, merely be playing with words, and that their use of the word, *love,* was in danger of becoming meaningless.

In the twentieth century, in our own day, there is much ethical and religious patter about brotherly love, but there appears to be lesser awareness among us that now the word is too general to be meaningful; or *at least its present meaning does not agree with its meaning in either the Old or the New Testament.*

From something explicit, the trend of the meaning has been, first, to the vague, but the character of the trend was clearly realized by Christ; since then the trend has gone further so that those using the word *love* sometimes appear merely to be mouthing a word, or are giving it a new meaning.

It took 1400 years, from Moses to Christ, for the use of the word *love* to become vague, and then another 1900 years (from the time of Christ until now) for people to develop a rather dubious definition of it.

Christ and some of his contemporaries were aware that the word *love* might be no more than the sound made by a gust of air blown out by a person from between his lips; that, and no more. When in the New Testament there is a record of a discussion of *brotherly love,* then one of those participating in the discussion usually asks, "How readest thou", that is, what does it really mean to "love the neighbor as the self."

To that inquiry the invariable answer is, Thou shalt not kill, commit adultery, steal, lie, covet. These *specific* negatives constitute love. These negatives (as distinguished from generalities) can easily be re-phrased into positives, as follows:

| Negatives | Positives |
|---|---|
| Thou shalt not kill (nor commit violence, nor engage in coercion) (*Sixth* Commandment). | Every man shall retain his liberty, unharmed himself and unharming to others. |
| Thou shalt not commit adultery (*Seventh*). | You may possess sexually the mate for whom you have undertaken responsibility. |
| Thou shalt not steal (*Eighth*). | You and your neighbor are entitled to be protected in the possession of your respective property. |

| | |
|---|---|
| Thou shalt not bear false witness (*Ninth*). | What you tell your neighbor must be the truth; otherwise remain silent. |
| Thou shalt not covet thy neighbor's house, wife, etc. (*Tenth*). | There is plenty in this world to possess by honest labors and exchange; the world, rich in many things, is available to those who work and exchange, without man poisoning his mind with envy, or injuring his neighbor in the process. |

Christ invariably indicated that the word *love* lacks meaning, or that it is incorrectly understood, *unless it at least means exactly what Moses specified in the Law.* In other words, the word *love* is a general term; in contrast, the commandments of Moses are specific. The latter give meaning to the former.

Christ, it should be noted, in the Sermon on the Mount indicated that He did not come to subtract anything from the Law, but He affirmed He was speaking in a manner to broaden its application so that its universality would not be restricted (as it had been by the prevalent erroneous interpretation, which practically annulled the further application of the commandments once they had been broken). Christ declared what was the proper extent of the application of the commandments. That was the new emphasis which He provided. The misinterpretation, and the lessening of the virility of the law, had long been accomplished by the assumption that *B,* if he had been injured by *A* (in regard to the commandments in the Decalogue), was *freed* from the law, and might retaliate and avenge. Christ disputed that, and declared that the Law remained in effect for *B,* even though *A* had violated it; further that *B by his actions* should forgive *A* and be forbearing toward him. (See Volume I, pages 28 - 144, for extensive discussion of this subject.)

Christ broadened the application of the Law, and universalized it for all thoughts, words, and deeds.

But, when talking about *love,* He passed quickly and completely, from the mere gust of air that came from His lips when He prounounced the word *love,* to the question of specific conduct meant by the term, as specified in the commandments in the Mosaic Law.

### How Christ Avoided Careless Thinking About Brotherly Love, A Term Otherwise Validly Under Critique, According To Occam's Razor

William of Ockham (in England) (1270?-1349?), or Occam as he is usually known, a Franciscan friar and general of the order, who was dubbed the Invincible Doctor, is the man who tolled the deathknell to a type of thought which for centuries had plagued Christianity, the type of thought known as scholasticism (especially that phase of scholastic thought known as *realism,* a misnomer for most people, who assume from the name that it is true realism).

Scholasticism was an incompatible combination of Hebrew-Christian and Greek thought. The ethical content of scholasticism was substantially Hebrew-Christian, but its methodology, its intellectual slant on life, was that of Greek philosophy. For Plato, the *general* had been more real than the *particular* or the *individual;* (the general idea, *man,* was more real than a *particular man*). By shifting from the *particular* to the *general,* men deceived themselves into believing that there existed a reality beyond the particular; the general *concept* or the *idea* was alleged to refer to a *mystical* "reality." But what the so-called realists deluded themselves about as being intellectual reality was unhealthy mysticism—a figment of the imaginaiton, and only *externally* more respectable than plain superstition.

The church father, Augustine, who prior to becoming a Christian had been a neo-Platonist, had more or less led the way in bringing into sober Hebrew-Christian thought the mysticism —unreality—of the "great ideas" of Plato.

Occam attacked that mysticism—absurdity—under his famous expression, *Entia non sunt multiplicanda praeter necessitatem,* that is, do not substitute a mystical generality (which is a mental creation or figment, and not reality) for specific cases. An English translation of the Latin of Occam might be, *Entities (ideas on reality, names) should not be multiplied beyond necessity;* but that translation does not say more to many of us than the original Latin formulation.

Other ways of endeavoring to elucidate the idea of Occam is to say: (1) selecting a new name does not add to the existence of external reality; (2) a *general* name (such as *love* or *justice*) may befuddle thought by its generality, whereas what really counts are the *specific* things or actions to which the general terms should be intended to refer; or (3) a new name is not necessarily a new idea; or (4) *general* terms have an ambiguity in them which hinders clarity of thought; or (5) general terms and general concepts lack reality; the general is not real; the only real things in the world are the specific cases; or (6) if you think in terms of specific things or actions you are confining your thoughts and declarations to the real world, whereas when you think in terms of general classes and ideas you are entering a potentially unreal, abstracted, sometimes imaginary, often hallucinary, and even fictitious world.

Once Occam had discovered not only the specific fallacy — mysticism and hallucination — involved in using general terms in place of specific terms for specific reality — he apparently became aware how universal the fallacy which he had noted was in the thinking of his contemporaries and his predecessors. Eventually, he appears always to have been looking for more and new evidences of the prevalent, almost all-pervading, intellectual disease of his age. His slogan, and his method of critique, became known as *Occam's Razor,* the best razor-sharp way to cut the ideas of imaginative thinkers and mystics into ribbons that had been discovered since the dawn of civilization, his *Entia non sunt multiplicanda praeter necessitatem.*

There can be no doubt that the term *brotherly love* is a potential violation of Occam's slogan. It is a *general* term. Either the users of the term are merely mouthing two words (1) with a meaning so vague that they are really saying little; or (2) they are using the term, now to cover this idea or now another, either or both of which may be wrong; or (3) they think they have discovered a new idea covered by their term, and they delude themselves that they have *discovered* something—like Sir Isaac Newton discovering the laws of gravity—and then they flatter themselves that they are original thinkers. Instead, they are merely neologists, developers of a new word, a sound emitted out of their lips, and a gust of air forced out of their lungs—a *word,* not a *reality.*

If Occam had lived in the time of Christ and had heard some of the patter about brotherly love, he probably would have set about debunking it, just as the term needs debunking today. But if he had overheard the conversation between Christ and the lawyer recorded in Matthew 22:35-40, he would have made the comment, "There is no fallacy here"—the term, *brotherly love,* is here defined in *specific* terms, namely, in the six specific commandments at the end of the Decalogue.

> And one of [the Pharisees], a lawyer, asked him a question, trying him: Teacher, which is the great commandment in the law? And Christ said unto him, Thou shalt love the Lord thy God with all thy heart, and with all thy soul, and with all thy mind. This is the great and first commandment. And a second like unto it is this, Thou shalt love thy neighbor as thyself. *On these two commandments the whole law hangeth, and the prophets.*

The identification, in the last sentence in the foregoing, of the *general* commandment, to love the neighbor as the self, with the *specific commandments* in the Second Table of the Decalogue is universally accepted.

A customary practice is to read in Sunday services first the Decalogue, and then to add to that, *as referring to exactly the same thing,* the appropriate part of the quotation in the foregoing. *Decalogue* and *love* are *identical.*

Clearly, Occam's law was honored by Christ rather than breached when He indissolubly tied the word *love* to the Decalogue. Words were not piled on words by Christ, nor was a generality substituted for what is specific. Here was no Platonic vagueness. The expression (to love the neighbor as the self) was not something new, but only a summary of the specific commandments, and the summary was defined in specific and explicit terms (the Decalogue).

Although Christ lucidly avoided exposing himself to the fallacy that Occam in a later age formulated against dangerous generalities, the same cannot be said of the Christian church in the twentieth century. Now, to love the neighbor as the self is a term which has been extended in many directions beyond what Moses wrote and Christ interpreted. (For evidence, see earlier issues of FIRST PRINCIPLES.)

The foregoing pertains to *brotherly* love.

## The Meaning Of Love In The Sexual Or Conjugal Sense. (An Illustration Of An Occamish Approach)

The word, love, is about as equivocal as any in the language, and has almost every shade of meaning. It is unfeasible to consider them all, but the obliteration of distinctions between brotherly love and sexual love, by means of a *generalization* of both terms, the route that Occam condemned, is so common that it is worth defining the term *love* in the sexual sense specifically, and thereby avoiding the fallacy at which Occam was consistently aiming his condemnation.

What is *conjugal* (honorable sexual) *love* between a man and a woman? A sentiment? a feeling? an exchange? a deal? Is it some vague emotion that is properly left nonspecific and undefined?

The substance of conjugal love—ignoring the emotional suspense that makes people act perfervidly toward each other during courtship—(looked at from a man's viewpoint) is: (1) *exclusive* sexual access for him to her; (2) conviction that her children are his and not another's; (3) her detailed care of those children; (4) cooking, laundry, housekeeping services; (5) aesthetic services by her (that she is pleasant to look at and possess as an ornament); (6) companionship. There are probably more, specific items which should be included, but the foregoing will suffice.

A man, therefore, loves a woman as his wife, *for what he gets out of it.* Any other definition is malarky. It is not necessary that every one of the foregoing benefits to a man be available in ample measure for him still to love her some. But let the wife chip away at these specific items and his "love" for her diminishes and may disappear. His *love,* therefore, is his satisfaction with the "services" he is getting from her. Reduce the services and his love disappears.*

Consider the contrary: give the husband the conviction that he does not have *exclusive* sexual access to his wife, but that others have too; have him reach the conclusion that the children

* Reference here is to deliberate and willful reduction of services by a wife. The essence of marriage includes forbearance by mates to each other in regard to services lost by causes beyond their control, such as illness, catastrophe, and even to services lost because we are all fallible.

she bears are not his; let his wife neglect her children; let her neglect cooking, laundering and housekeeping; let her no longer be attractive as a person, but become unornamental and a disgrace to him; and/or let her desert him so that he is robbed of her companionship (available otherwise practically on demand), and then what? His love will wither and die.

He may in protest at first fight with her, abuse her, divorce her, neglect her, or desert her; but he certainly will not "love" her fervently any more, unless there is something pathological in his love. What he thought was "love" was the getting of the "services" listed earlier. His love was a manifestation of his concern for his self-interest. When his self-interest was no longer reasonably served, his "love" tended to disappear, too.

Because a man gets, or hopes to get from his mate, the services previously listed, he in return gives her exclusive sexual services; he treats her with kindness; protects her; supports her; gives her gifts; compliments her; shows her that he is dependent on her; and tells her all the exaggerations (how he l-o-v-e-s her) that she, womanlike, wishes to hear. Such is the coin in which he pays her, which is why she in response "loves" him — that is, for what she gets out of the marriage.

Such (we assume) would be Occam's realistic approach to conjugal love. He would look with suspicion on the use of the word *love* by some young gallant to some maiden when he says, "I love you," in order to obtain sexual access, without marriage, support, permanent companionship, and all the rest.

When do people make a truly Occamish approach to sexual love, deliberately and explicitly? When do they endeavor to escape the humbug that may be in a mere word? When do they, in practice say, *Entia non sunt multiplicanda praeter necessitatem* in regard to sexual love? When they have a daughter who is being courted by a rogue, who tells the daughter, I *love* you, *but he does not mean by that word the specific contents that the word love ought to have.* If, contrarily, the young man undertakes honorably to do the things listed in the second preceding paragraph, then the parents usually welcome the courtship of their daughter by the young man. *Parents, when it is a matter of their daughter's welfare, all become sound Occamites.*

**Justice, As A General Term To Be Looked At Skeptically, From The Viewpoint Of Occam**

Everybody wants at least *justice*, at all times, in all places, and under all circumstances. And what is *justice*, if there is to be progress beyond the mouthing of the word? What *specifically* does *justice* mean, in exchanges of goods and services between men; that is, what is justice in business?

Plato (in his *Republic*) through the device of a dialogue in which Socrates is his spokesman) defines justice (in a general sense) as every man getting his due and being assigned to his proper station in life. That definition is satisfactory as far as it goes, but the Delphic Oracle of the Greeks never gave a more ambiguous and valueless statement on any subject. The definition merely states a goal, that every man be assigned to his proper station in life. But what is *his* proper station? and *how* is his proper station to be obtained by him? Neither Socrates nor Plato answered those determinative questions. Their "wisdom" was not wisdom, but an oracular mystery, worthless and without merit.

The Christian religion does not equivocate on the subject of justice, as did the Greek philosophers. Hebrew thought was always more down-to-earth than Greek thought. The Christian religion explicitly concerns itself with *how* a man is to get out of life what is his due.

*Economic justice*, as well as justice generally, if it is not to be slashed by Occam's Razor, *must be something specific*. In the foregoing, Böhm-Bawerk was specific about prices.

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*Liberty* is not an *end* but a *means*. It is not a high and exquisite happiness to which order, property and morality should without one scruple be sacrificed. It is merely valuable as the safeguard of order, of property, and of morality.

Rephrased from MACAULAY's essay on "Mirabeau."

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