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

VOLUME VI | DECEMBER, 1960 | NUMBER 12

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Announcement Regarding "First Principles In Morality And Economics"

FIRST PRINCIPLES IN MORALITY AND ECONOMICS, after having been published *monthly* for six years, will no longer be published on that basis, but either quarterly or irregularly. A specific decision regarding the future schedule has not yet been made, and the ultimate decision will depend on circumstances.

The ground for the foregoing decision to lessen or interrupt the publication schedule of FIRST PRINCIPLES is based on a practical consideration, to wit, the preparation of the material appearing in FIRST PRINCIPLES consumes too much of the publisher's present available time.

The presentation of material in separate issues of FIRST PRINCIPLES has been fragmentary, but in perspective the material itself will be found to be systematic. This is the situation also, despite a change of name. For the first four years the title was PROGRESSIVE CALVINISM; for the latest two years, FIRST PRINCIPLES. The original title was unnecessarily sectarian; Calvinism is only a part of Christianity; further, much of the material content has been ethical, which is as valid for a Mohammedan, Shintoist, Buddhist, etc., as for a person nurtured in the Hebrew-Christian religion*.

The format of FIRST PRINCIPLES was selected so that the twelve issues in each year could be bound in book form. Paperbound copies of the six years are available at $3 a copy. Copies of some monthly issues are yet available; the supply of others is exhausted.

This publication has been a hybrid—a cross between Hebrew-Christian ethics and neoclassical economics. Much of the ethics presently taught in Christian churches is here evaluated to be (1) neither a correct interpretation of what the Hebrew-Christian religion teaches in regard to proper conduct toward fellow men; nor (2) reconcilable with an internally consistent science of the relation of men to things, that is, with a science of economics.

When the Christian church discovers that it is suffering loss of prestige and influence in the practical world, in the world of human action, then it should also realize that that may in part be ascribable to its ethics being unscriptural and sanctimonious, and inconsistent with the ends allegedly aimed at.

The Ambiguous And Defective Dictum, "Supply And Demand Determine Price"

Men naturally undertake to be practical economists. They confidently declare that "supply and demand determine price." Their statement can be quite right, but it is desirable that they and their hearers know what that proposition really means. Anyone, however, who has mastered the material on supply and de-

* Some of the material in the earlier issues was even denominational and individual in character; however, that aspect of the material should be appraised as being *illustrative of general trends and attitudes*, and therefore, in *that* sense, of wide rather than narrow significance.

Published monthly by Libertarian Press. Owner and publisher, Frederick Nymeyer. Bound copies of 1955 through 1960 issues, each $3.00. Send orders to Libertarian Press, 366 East 166th Street, South Holland, Illinois, U. S. A.

mand as presented in the preceding three or four issues of First Principles (where *value* and *price* have been discussed), will realize that whoever says "supply and demand determine price" does not necessarily fully understand what he is saying, unless he analyzes *price formation* in the manner in which Böhm-Bawerk (who was quoted) has done it. The formula, supply and demand determine price, may be little more than empty sounds.

The words, *supply* and *demand,* are "objective." But price is determined by *subjective evaluations.* Instead of the old cliché, supply and demand, it would be better to substitute, "Suppliers and demanders determine price." The rephrasing emphasizes that people, and not things, determine prices. For something to have value somebody must need it, know that he needs and wants it, and the supply of what he wants must be sufficiently limited so that the thing is scarce, and consequently not a free good.

Substituting the term, *suppliers and demanders,* for the other term, *supply and demand,* although a gain in terminology, still is unsatisfactory. Böhm-Bawerk showed, in what was quoted in the previous issue, that not all *suppliers and demanders* affect the price. Finally, it is *only the marginal pairs of buyers and sellers* who determine the range within which the price will settle. The many excluded would-be buyers and sellers have no effect on the price, except the members of one of the marginal pairs. Those buyers and sellers who do have a greater capability for exchange than the marginal pairs *indirectly* affect the price by determining who the participants in the marginal pairs will be, but the price itself is not directly determined by the former.

And so, having first abandoned *supply and demand* for *suppliers and demanders,* it is necessary secondly to abandon that formula, too, and substitute for it, the *marginal pairs of buyers and sellers determine price.* But few of the many who facilely say, supply and demand determine price, have knowledge of what is meant by *marginal pairs.*

Statements, then, about supply and demand, in a general slogan may be almost meaningless to people who use *general terms* the content of which they may not adequately understand, and which they have probably not dissected or analyzed in a specific case, in a manner as Böhm-Bawerk (with various simplifying assumptions) analyzed an assumed "market" for horses, with ten would-be buyers and eight would-be sellers. Even that *simplified* analysis (quoted *in extenso* in the November issue) may not be adequately understood by readers (i.e., fully enough to be employed by them in practical cases).

People who learn the theory of the formation of prices are not necessarily the shrewdest traders who somehow or other come off better than the rest of mankind when they buy and sell, but at least they can have a conscious method of analyzing markets as Böhm-Bawerk did, and consequently become better buyers and sellers than they were formerly. If a man is unable to make more money for himself hereafter, from Böhm-Bawerk's method of analysis, when buying and selling, then he probably remains in the class of those who repeat the words, *the marginal pairs determine price,* but those words are really mere sounds just as are the words in the declaration: supply and demand determine price.

He who buys and sells better after having read Böhm-Bawerk's analysis of price formation than he did before (assuming he is active in business), really knows what it means that the marginal pairs determine price.

Confusing Cause And Effect In Price Formation

A fruitful cause of intellectual confusion is to see that there is a *cause and effect* relationship between two things, but to reverse the relationship, and consider that that which is really a cause is an effect and that that which is an effect is a cause.

Parents of an adolescent son may marvel at his appetite, and they may "explain" the situation by saying that "John has a big appetite, because he is growing fast." On reflection, they might reverse the statement and say, "John is growing fast, because he has a big appetite." Clearly, the *effect* which John's parents have in mind is his "growing fast," and the immediate *cause* is his big intake of food.

In the sciences, cause and effect have frequently been "reversed" erroneously. This has happened conspicuously in the science of economics. One writer has written:

> Malicious persons have been prone to describe [British Classical Economics], the system of political economy which Ricardo formulated and Mill made popular, as the cart-

> before-the-horse system, . . . according as they were struck by the [frequency] with which that system mistakes cause for effect.

Ricardo, for example, taught that *costs determine prices.* It is instead the other way around, because the prices obtainable for finished merchandise determine which costs are tolerable; that is, demand determines prices. One way to formulate the difference between British Classical Economics and Austrian Neoclassical Economics is that the former says *costs determine prices,* and the latter says *demand determines prices.*

There can be no real doubt that the statement just quoted about British Classical Economics is essentially correct; Mill, Ricardo and their followers did, on the subject of price determination, confuse cause and effect.

Unfortunately, Karl Marx and his fellow-socialists undiscriminatingly accepted Mill's and Ricardo's ideas. Marx asserted aggressively that a cost factor—*one* important cost factor, namely *labor*—was the determinant of prices, or should be.

In confusing cause and effect in the the crucial field of prices, Mill, Ricardo and Marx made the same basic error.

Justice And Injustice In Price Determination Under Four Different Circumstances

Prices Under Four Different Circumstances

In the October and November issues extracts were presented of Böhm-Bawerk's analysis of the price that will prevail for a horse or horses under four different circumstances: (1) isolated buyer and seller, (2) one-sided competition among buyers, (3) one-sided competition among sellers, and (4) two-sided competition.

In isolated bargaining the price of a horse (under Böhm-Bawerk's assumptions) can vary in a wide range, between $100 and $300.

Under one-sided competition among buyers, the prices will fall in a higher and narrower range, between $280 and $300.

Under one-sided competition among sellers, the price will fall in a lower and narrower range, between $100 and $120.

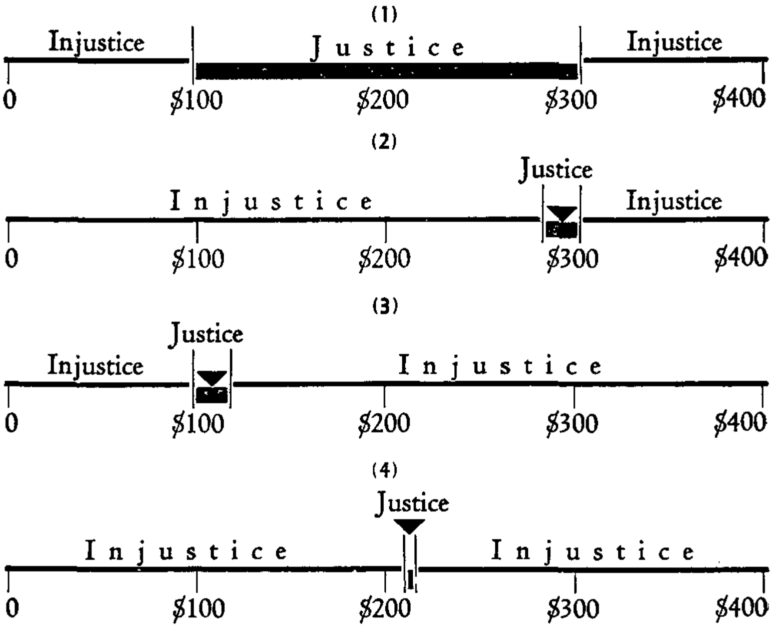
Under two-sided competition, the price will fall in a middle and very narrow range, between $210 and $215.

Chart I shows the foregoing, graphically.

CHART I

"Just" and "Unjust" Market Prices For Horses Under Four Circumstances

(1) Isolated Exchange
(2) One-Sided Competition Among Buyers
(3) One-Sided Competion Among Sellers
(4) Two-Sided Competition



(*Dollars as price for a horse*)

1. When there is one buyer and one seller, the range in which the bargaining takes place can be very wide. The trader who is better, or bolder, or more ruthless, can force the price far in the direction of his own idea of what the price should be, and far away from what the other man would like the price to be. (See the heavy portion of the first horizontal bar in Chart I, which shows the range in which the price can fall.)

2. When there is *one* seller but *many* buyers, the seller has a heyday. He easily obtains a higher price, not because he is a better, bolder and more ruthless trader, but *because the buyers compete with each other by outbidding each other.* To get a high price is not evidence that a man is an extortionist and hardhearted;

it often is nothing more than evidence that buyers consider it to be for their own good to outbid each other. It is not so much the seller who extorted for himself the higher price; instead he received the higher price effortlessly because of the eagerness of the several buyers. (See the heavy portion of the second horizontal bar in Chart I.)

3. When there are *many* sellers and *one* buyer, the situation is reversed. The sellers under-sell each other. A low price is not conclusive evidence of skillful and heartless pricing by the buyer; it may instead be evidence of eagerness of sellers to sell. It is for that reason that the price of the horse that is sold will be lower. (See the heavy portion of third horizontal bar in Chart I.)

4. When there are *many* buyers and *many* sellers, the range in which the buyers and sellers can be "tough" toward each other is narrow. The range in our example became a trifling $5 compared to $200 in isolated trading. Skillful and ruthless traders have no real range in which to "extort" from another what their intelligence, wealth or strength might induce them to attempt to "extort." The "market" restricts them. (See the small heavy portion in the middle of the fourth horizontal bar in Chart I.)

Definition of Justice and Injustice

The four horizontal bars in Chart I are divided into sections labeled "Justice" and "Injustice." The terms need definition.

What is *justice* in price determination? That no buyer *coerces* a seller beyond the limits that the seller is willing to go; and vice versa, that no seller *coerces* any buyer beyond the limits that the buyer is willing to go.

Readers who have not read the preceding two issues may not fully realize that that is an absolute requisite for justice. Justice assumes *noncoercion,* and therefore noncoercion is part of the definition of justice. Every buyer and seller, by this definition, himself *wishes* to be a buyer or seller at the price that prevails. Every actual buyer and seller prefers to pay the price he is paying or receiving, versus not trading at all. Every buyer and seller, according to his own estimation, *gains* by the transaction. He trades *willingly.* The market he creates or helps create is, in that sense, a *free market.*

What Justice Does Not Include

But the term *justice* in price determination does not assume some things. It may be well to be explicit about that.

1. First, it does not assume equality of circumstances. It assumes instead inequality—one man wants a horse, and another man with a horse to sell wants something in place of his horse. The valuations of the participants in the market will necessarily be different.

Prayers in churches on Sunday should give thanks to God that He made us different from each other, and put us all in different circumstances. That is even better thanksgiving than that the church members are all "one body." The fact that we are different is the basis for exchanging, and the opportunity of exchanging is the principal basis for people associating together. Society depends on mutually beneficial exchanges. Civilization and a high standard of living depend on inequality or disparity, on differences in values between people. We help each other more—show "brotherly love" to each other more—by *voluntary* exchanges than by any other activity. (See what has been written about Ricardo's Law Of Association or Cooperation, in Volume IV, numbers 7 to 10.)

2. Nor can justice in price determination assume that there is perfect knowledge by the participants of the ultimate wisdom of what they are doing. There is no perfect human wisdom. We have only partial knowledge. Every man must engage in exchanging and trading according to his own "light." That some have more light and others less is inescapable.

Every man must be his own judge when he buys and sells. That responsibility is accompanied by some undesirable features. The alternative is that another makes the decision for the first man. But such an arrangement, that we are our brothers' keepers, is accompanied by even more undesirable consequences. The abuses of paternalism and mandatory control over others are worse than the abuses of freedom. It is safer to rely on protecting the self than to rely on protection by others.

The Concomitant Of Justice

But the further question may be asked: Is nothing more to be relied on than atomistic competition, and is it always: every man for himself only?

To have that perspective of a free market is to fail to see its character clearly and realistically.

The bid prices by other buyers in a free market are educational for a particular buyer; his fellows truly help orient him. Similarly, the offering prices by other sellers in a free market are educational for a particular seller. "Free markets" daily teach more than do the schools of the world. Free markets are for the efforts of mankind what the north star is to the sailor at sea; free markets tell what should be done—produced, transported, discontinued, increased or decreased. Buyers really help other buyers; sellers really help other sellers. And likewise buyers even help sellers, and vice versa.

The more-standard that merchandise is, and the greater the number of buyers and sellers that there are, the safer the world is for the foolish, weak, inexperienced and imprudent. It is the existence of *nonstandard* merchandise, bought and sold in *isolated* markets, which potentially contributes to injustice in buying and selling. The highly organized markets for standardized, graded merchandise, which are characteristic of the modern world, work toward frustrating injustice.

The Alternative To The "Market"

That the "market" is not a *perfect* ideal for "just" exchanging is undoubtedly true. In this world, in which fallible men are neither perfectly good nor wise, the only other standard is whatever other alternative may be available.

There is only one such alternative available for those who are buyers and sellers. That alternative is a "fixed" price established without freedom on the part of the buyers and sellers, a price which therefore must be coercive and compulsory.

Such an ideal of a fixed or administered price, for which many devout moralists and religionists seem to yearn, requires that the agency selected to establish that "just price" know, in a Godlike manner, the marginal utility of each unit of goods to be traded, for every potential buyer and seller, and then to match such data so perfectly that the ideal price, presumably the "just price," is arrived at. But whoever has followed the reasoning of Böhm-Bawerk, as quoted in the two preceding issues, will realize that no *human* agency (other than the many participants themselves) can possibly arrive at a wise or just price, even in the (almost artificially) simple circumstances that Böhm-Bawerk assumed in order to keep his explanation simple.

The erroneous assumptions, therefore, underlying an administered price—administered say by a fallible, not-too-well-informed, seducible bureaucrat—for the purpose of obtaining a vainly hoped-for "just price," include (1) the unrealistic assumption of the existence of the practical omniscience of the bureaucrat (to know the marginal utilities of each buyer and seller); (2) that such a price could and would be changed simultaneously as circumstances and marginal utilities change; (3) that the selected price may be made *coercive.*

Of those three features characteristic of a controlled price, the first is the most important. However, that requirement of omniscience *cannot* be met. Nor the second requirement either.

The *coercion* involved, contrarily, can be partially eluded by everybody involved. A man takes into account, as much as he can, by how much a coercively set price is against his interest, and, according to legitimate self-regarding motivations, endeavors to "elude" or "avoid" disadvantage to himself from such a price. There is a *law* which comes into play against *coercion,* namely, motivation based on legitimate "self-interest." That is the "natural law" in the social sphere, as physical laws are the natural law of the material world.

What Is The Ideal Price Or The "Just Price" For Which Men Yearn

1. The ideal just price is a *variable* price. In an ever-changing world, the ideal of a fixed price is unsound.

2. The ideal just price, further, must be based on the *subjective evaluations* of *all* participants concerned. Only the participants themselves will know what those evaluations are.

3. The subjective evaluations of all participants will determine what for them the point of *marginal utility* is, for each product, at a particular time and place.

4. The "discovery"—the revealing—of the various marginal utilities cannot be a mass revelation, but can only be expected to be revealed by buyers gradually overbidding each other, and sellers gradually underselling each other. Eventually, by piecemeal disclosure the "market" will be "revealed," and buyers and sellers will be "matched," as was analyzed on pages 331-344.

5. The price at which the "matching" occurs is the only just price determinable according to accepted principles of morality.

Such a "just price" will never be *perfect,* until men have become so perspicuous in their judgment, so well informed on all their future needs, that they are perfect in their *subjective evaluations.* There are no such men and never will be in this dispensation. To assume that perfectly just prices exist, or will exist, is to assume the impossible.

Justice — And Mathematical Averages

Prices may be determined in "isolation," that is, arrived at by bargaining taking place between two people, alone by themselves, without contribution by others; or they must be arrived at in a "market", that is, arrived at by many buyers and sellers mingling with each other in the bargaining process.

In the first case, we are dealing with a *specific* price. In the second case, we are presumably dealing with a price determination which involves *averaging* of some sort. A natural question arises: What kind of average is developed out of the free market process, and how meaningful and "just" is that average? The answer is not difficult to discover and will be illuminating. For the following analysis, we shall use the data on horses appearing in Table I on page 323, in the November issue. For convenience, the table is repeated here.

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 (a)	Be	200 (a)
Af	210 (b)	Bf	215 (b)
Ag	200	Bg	250
Ah	180	Bh	260
Aj	170		
Ak	150		

(a) "First" marginal pair.
(b) "Second" marginal pair.

Readers of the November issue will remember that under the situation described in the Table, five horses will be sold, to wit, the five available for less than $215. The other three priced at $215, $250 and $260 will have to be led home, unsold. However, as was made clear in the analysis, the second marginal pair that determine the price is the first excluded pair, to wit, *Af* and *Bf*, the sixth buyer and the sixth seller who were willing to buy or sell at $210 and $215 respectively. These two *cannot* get together on a deal because they are $5 apart. Nevertheless, *they are the real marginal pair in the determination of the price.* They must be included in any *averaging,* in order to arrive at a price.

There are four well-known averages, (1) the popular average known as the *arithmetic mean;* (2) the *geometric mean;* (3) the *median,* and (4) the *mode.*

The *arithmetic mean* for the first 12 figures in Table I is arrived at by dividing by 12 the total of the twelve figures, that is, in algebraic form: ($300 + $280 + $260 + $240 + $220 + $215 + $210 + $200 + $170 + $150 + $110 + $100) ÷ 12. The next equation is $2,455 ÷ 12 = $205. This method of averaging has the effect of giving every item in the twelve equal weight in determining the average.

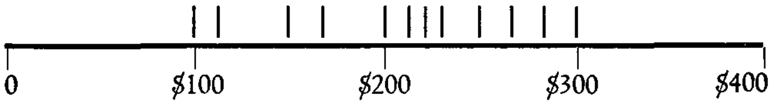
The *geometric mean* for the same figures is arrived at by multiplying the twelve numbers together and extracting the 12th root of the product, that is, (1) first multiplying $300 x $280 x $260, etc., which gives a total of 2.921 septillions. When the twelfth root is extracted, the answer is 195. This method of averaging has the effect of giving *greater weight to the smaller items* in the series.

The *median* means the midmost number between the high and the low, if there is an odd number of items, e.g., the seventh if the total number were 13. But there are only 12 items in this series, and so we compute an arithmetic mean of the midmost pair, which is $210 and $215. The answer is $212.50. This has the effect of *minimizing the extremely high and low items.*

The *mode* means that value where the items cluster together. To demonstrate the mode a chart should be drawn. See Chart II. Each column represents a buyer or seller. The cluster in this small series is between $200 and $220. We might call the mode $210 (the midpoint between $200 and $220). The mode, similar to the median, ignores the extreme values in the series and *selects the value that seems to be most popular* (is "in style," from which the term *mode* is derived). An average which is a mode will tend to be skewed on the low side; at least lower than the median.

CHART II

Chart To Show The "Mode" Of Horse Buyers And Sellers In Our Example



It happens, because Böhm-Bawerk took a *typical series of prices,* rather than an exceptional series, that the results of all four processes of averaging fall in a rather narrow range, between $195 and $220. In actual life it does not always turn out that way.

When the question is asked: Which of these four averages on the basis of logic and "justice" should be used in pricing, then the answer can be found by a process of elimination. The geometric average should be excluded because it gives too much weight to the lower figures. The mode should be excluded because it is (usually) skewed. That leaves the arithmetic mean and the median. Between the two the final choice should be with the median because it gives lesser value to extreme figures than does the arithmetic mean. The median is the *midmost* figure, and is more typical and easily computed than any other average.

Which average, according to Böhm-Bawerk's analysis, is the one which is actually used in the price determining process? *The median.*

A market analyst who makes price analyses on the basis of arithmetic means, geometric means, or modes, does not follow a method in harmony with what really happens. Price analyses, in order to be strictly realistic, should be based on medians.

If the question is asked: What is the most important average in life, the common answer would be the arithmetic mean. But the most important average by far in the world is the *median,* because the exceedingly important price determining process consists in finding that kind of average.

When looking at the situation from a mathematical viewpoint, *the median value, for the participants in a market, is the most just value.*

Labor As A "Commodity"

An American educated in the first half of the twentieth century will almost certainly have been taught that "labor is not a commodity."

The statement that "labor is not a commodity" is usually proclaimed with an air of righteous astonishment that the contrary is being considered, and with an attitude of indignation which appears to be intended to give evidence of religious protest against human "indignity." The writer, whose early youth was spent in a rural environment, far from centers of employment, was nevertheless definitely conditioned, by his environment, to that idea, to wit, "labor is *not* a commodity."

The conclusion which was intended to be drawn from that premise or principle was that the labor rate—the price of labor—was not to be determined by the ordinary laws determining the formation of the prices of commodities. The idea was that "labor" was peculiarly human, and that it should be treated on a basis different from commodities. But what that different basis should be was not specified, except that there was the inference that wage rates, to be determined by some noncommodity principle, should be more generous and more "just" than if they were determined by the laws of supply and demand which determine commodity prices generally.

However, as far as price-determining economic laws are concerned, labor *is* in the same category as commodities. This is not a question of doctrine, about which to be emotional, but one of making proper distinctions regarding facts. It should not be difficult to come to a solution which correctly looks at labor as a commodity, but which also removes the anxieties of moralists, social philosophers and theologians who afflict themselves with the fear that men are being demeaned into being no more than chattels such as horses, cows, etc., when men's labor is considered, economically, to be similar to the services of a horse.

* * *

The distinction which it is necessary to make is between the *laborer* and his *labor*. A laborer is not a commodity unless he is a slave, but his labor is a "commodity," or more accurately, a service. It is different with a horse; its labor is a commodity, or service, but the horse itself is also a commodity which can be bought and sold (as well as separate segments of the labor it can perform.) The whole horse can be sold, and naturally its labor power then goes with it; or a portion of the labor of the horse can be sold, as for a day, a week, a season.

In a free society, a man may not be sold like a horse. He therefore never sells his *total* labor. To do so would be to sell himself into what would be considered slavery. But a man does sell—should be prepared to sell—fragments of his labor. In other words, a *laborer* is not a commodity, but specific units of human *labor* are services to be priced as commodities are priced. It is—always will be—unfortunate to confuse a *laborer* and his *labor*.

What makes anything valuable? Something which we may call, using a term of Böhm-Bawerk, *renditions of service*.* It will be helpful to compare a farm, a horse, and a man relative to "renditions of service."

Why is a farm valuable? Because it will contribute certain "renditions of service" in connection with producing foodstuffs. A farm has no *intrinsic* value in itself. Its value derives from the "services" it can provide, which services are wanted.

Why is a horse valuable? Because it, too, can perform certain services which contribute toward satisfying human needs. A beast capable of performing no services is valueless.

Why is a man valuable? A man is valuable to himself and others because he too can perform services which constitute renditions of service. Whenever he performs specific services for others he is in a position to exact pay for it.

It is necessary therefore to distinguish between *renditions of services* and the *bearer of those services*. What really counts is the renditions of services. These are sold (1) in fragments, or (2) in wholes, in the case of everything except human beings. When a man buys a horse or a farm, he buys *all* of the future renditions of service which these two can perform. Something which we call a commodity (and buy and sell as such) is really a bearer of renditions of services. This is as true of the inanimate as of the animate. It is the renditions of service which we are really buying and selling.

Rent paid by a tenant is for specific renditions of services by a house, the services of shelter, protection, privacy, etc. Such

* This is the term employed by George D. Huncke, one translator of Böhm-Bawerk, for the latter's term, *nutzleistungen*.

rent is for a fraction of its potential total services, and is only for a night, month, year, or a specified time. Wages and salaries are "equivalent" to rent, that is, payment for services performed in a specific period of time or in a specific amount. The house is a commodity, a term intended to designate the whole package of potential services which something can perform. Similarly, a laborer would become a "commodity" if he sold his whole capacity to render services in one lump mass, by selling himself. Slavery can be defined as considering a human being who is the bearer of potential services as a package of renditions of services to be bought and sold as other "packages" of renditions of service can be bought and sold.

* * *

The clarification of the proper distinction between renditions of services and the bearer of renditions of services was accomplished in the last half of the nineteenth century by the Neoclassicists of the Austrian school. That distinction, which they emphasized strongly, is essential for the solution of economic problems and the avoidance of fallacies.

It is significant to note wherein lies the quintessence of their distinction. It is this: instead of looking at the collective mass of renditions of service (embodied, for example, in a whole horse) only specific units of renditions of service are considered. The shift is away from a general or collective term, horse, to the services of a horse for plowing, or riding; and further not even plowing or riding generally but a specific amount of plowing or riding, such as pulling a plow to get ready a small patch of ground for a flower garden.

The tenor of the thinking in Neoclassical economics is away from the general to the specific. It was by that "method" that the Neoclassicists made their contribution to economics; it was by that method that they solved old confusions and unmasked long-accepted fallacies. The essence of the idea of marginal utility is to "get away from" *bread* as a general term and to consider instead a specific unit of bread.

That method, it will be evident to those familiar with the history of systematic human thought, is the same as that of William of Ockham (Occam), who put an end to the florescence of scholasticism by his method, known as Nominalism, which consisted in considering what is specific rather than what is general. The modern age of science would not exist—could not have come into existence—except by the application of Occam's "approach." Marginal utility and Neoclassical economics are practical applications of Occam's method.

To argue "labor is not a commodity," is to look at "labor" as an *aggregate* mass of potential labor, or renditions of human services, embodied in a man, and then to say, really, that the whole laborer is not a commodity, which is correct. But *specific* renditions of service by a man, for which he gets a salary or a wage, are most certainly subject to the laws controlling the pricing of commodities and services.

Potential "Injustice" To Employes; The Assumed Case Of Labor — One Buyer (The Employer) And Many Sellers (The Employes)

If specific units of labor should be priced, as was shown in the previous article, according to the same principle by which commodities are priced, is there any peculiarity which would put the laborer, when he sells his labor, at a disadvantage? To provide an answer it is necessary to take into account the attendant circumstances, in the framework of which the prices of labor (wages) are determined.

It will be remembered that Böhm-Bawerk had four categories, (1) isolated exchange; (2) one-sided competition among buyers; (3) one-sided competition among sellers, and (4) two-sided competition. As was evident from Chart I on page 358, the range in which the price can fall is different for these four cases: it is between $100 and $300 in isolated exchange; between $280 and $300 in one-sided competition among buyers; between $100 and $120 in one-sided competition among sellers; and between $210 and $215 in two-sided competition.* If labor can have its prices set under Case 2—with one-sided competition among sellers of jobs—then its rate will be in the range of $280 to $300. But if the pricing of labor falls under Case 3, then the pay rate will be in the range of only $100 to $120. Case 3 consists of exchange with many sellers but only one buyer.

* In the further discussion here of *wage rates*, the figures used by Böhm-Bawerk for *horses* will be used, because that will make the exposition proportionately simpler.

Under which case will the determination of labor's wages fall? The answer which *appears* appropriate is that the determination of wages is between *one* employer and *many* employes; then, apparently, the case falls under Case 3, one buyer of services and many sellers of services. Then the conclusion seemingly follows inescapably, that the determination of wage rates is rather disastrous for the employes. If we substitute monthly wages for men in the place of prices for a horse, then the price is most certainly at the low end for the laborer—only $100 or $120, because that is the price of a horse when there is one buyer and many sellers.

In order to make the case dramatic, it will be helpful to assume a town with an original population of 1,000, situated in a rural community in central South Dakota. That town existed in large part in order to be a shopping center for farmers. But there was added to that town a small company manufacturing elevators to be used in unloading grain from farm wagons into farmers' granaries. This company, let it be assumed, originated with one man, a blacksmith. He had designed a superior elevator and built it well, and consequently the business had grown. The blacksmith was now the president of the corporation and he had a payroll of 500. As a further consequence, the population of the town had grown to 3,000 people, of which 2,000 were dependent on the elevator company. Let it be assumed further that there was no other employer of consequence within a radius of 50 miles. If people in this town are to obtain employment (beyond jobs associated with the town being a shopping center for farmers), then there is only one place to go—the elevator company.

To whom does this *one* employer compare? Does he not compare with the lone buyer of a horse, with many anxious sellers? And do not the 500 employes, when they wish to sell their labor power—their potential renditions of service—find themselves in the position of the many sellers of horses, who *compete against themselves* (without the potential employer doing anything cruel or coercive)? And consequently, do they not find themselves pricing their services at the rate asked by the most urgent and weakest seller in the $100 to $120 range?

On first thought, some will conclude that they have here found a genuine confirmation of the hardship, if not the injustice, of the free determination of wages, when there is only one employer and many employes, or, at any rate, few employers and a whole multitude of employes. It appears that Böhm-Bawerk's detailed analytical approach has finally confirmed what had long been urged, to wit, that the bargaining for wages is "loaded against" or "stacked against" the employe. It will seem that all that an isolated employer needs to do in that isolated town in South Dakota is to sit back and let the workers drive down their wage by their own competitive offers. Could there, in fact, be a better reason for organizing a union, and presenting a solid union front—as of *one* man—*one* seller only of services—against the *one* buyer?

Further, considering what the range was in Case 1, the case of Isolated Exchange, namely from \$100 to \$300 (rather than \$100 to \$120 as we have been considering), would not the workers be foolish if they did not get a tough bargaining committee who immediately broke open the upper limit of \$120, and put the bargaining at a higher price level?

Such conclusions (which are however invalid) would most certainly be valid, if the case really fell under Böhm-Bawerk's Case 3. The fact is that the case only *seemingly* falls under Case 3.

It will be recalled that under Two-sided Competition the price (of horses) settled in a range of \$210 to \$215. In this case the range itself is small; the bargainers have only \$5 about which to argue. This contrasts with a range of \$100 to \$300, or an amount of \$200 about which to argue in isolated exchange, between one buyer (employer) and one seller (the labor union).

What might a labor union bargaining committee be expected to do? Get the wage rate close to \$300—maybe up to \$290—even though in a genuinely competitive market (two-sided exchange) the price would finally settle between \$210 and \$215?

Let it be assumed that the bargaining committee would be able to do that much—bargain the employer into paying \$290—instead (1) of \$120 which was *assumed* might be the rate of pay if there were many sellers but only one buyer; and instead (2) of \$210 to \$215, if there were many employers in the town competing with each other, and many employes also competing with each other (as is to be assumed under two-sided exchange). What will happen then? Workers in Sioux Falls, Sioux City, Omaha, Fargo, Des Moines, St. Paul and elsewhere, would look at their own wage of $210 to $215, and some of them would eventually move to that isolated town in South Dakota and seek work there. There will be somebody, surely, who will undersell his services below the $290 rate. The bargaining committee will not be able long to hold up the pay rate at $290. In other words, this isolated town in South Dakota is not truly isolated. The term, isolated, can be no more than relative, because more workers *can*—and *will*—come into the town, if the prevailing rate is $290 rather than $210 to $215.

But by similar reasoning, the employer is not an *isolated* employer (buyer of labor) either. In fact, if he pays only $120, but 75 or 100 miles away in Sioux Falls or Sioux City the prevailing labor rate is $210 to $215, what will happen? The farm boys near the isolated town will work there long enough to "learn the trade" and then one by one they will move to where they can get the $210 to $215. The isolated employer will first have a heavy turnover of help, but finally the territory will be so drained of men that he cannot get enough men any more at the rate of $120. He will be obliged, whether he wishes to or not, to increase his pay rates to approximately $210 to $215. In short, he is not an isolated employer, in a real sense.

There may, of course, be some differentials in pay between the isolated town of 3,000 people, and Sioux City, and Chicago, and New York. Such differentials may be *relatively* permanent. Cost of living is less in a small town; food costs are probably lower; transportation costs are certainly lower; there is less money required for entertainment simply because entertainment is not so elaborate in a country town as in Chicago or New York. The rates of pay in South Dakota may then be permanently under the pay in big cities, but only enough to compensate for the difference in the cost of living, or for other factors important to the laborers.

The idea that isolated exchange exists in well-established industries, or that one-sided exchanges exist, is untenable for another reason. The buyer in our case (the blacksmith who became president of the elevator company) is not the real buyer of the renditions of services by his employes. The apparent *single* buyer is not really such. He is only a "front man" or agent for a multitude of buyers. The multitude of buyers are the farmers who buy elevators from this company (or another company). It is what the farmers will pay for elevators (a figure determined in its case by the marginal utility of elevators to farmers) that determines what the president of the elevator company can pay.

Similarly, the union bargaining committee is never more than a "front organization" or agent for the sellers of labor power. The bargaining committee must finally be as responsible to the men they represent, as the employer finds himself finally responsible to his customers.

Four Kinds Of Coercion, And Their Relation To Justice

All four horizontal bars in Chart I on page 358 have an inner section designated "justice," and two outer sections designated "injustice."

It should be understood that there is no relationship between these designations and various popular ideas of a "just price," or vague ideas regarding what people *should* get, for one reason or another.

Some people consider a price to be just only if it covers all costs. There is no relationship between such an idea about a just price and the definition of a just price here used.

Others consider a price to be just only if it gives a "living wage" to those who participated in producing the good. This is another version of the "cost" theory referred to in the preceding paragraph. The getting of a living wage is, however, not something to be attained by pricing on a cost basis. A *living* wage depends ultimately on productivity. If productivity is not adequate for the so-called living wage, compulsory pricing designed to obtain it will be a delusion. (Although a living wage is not to be obtained by a "living wage" pricing policy, it can be obtained, however, as a by-product of free-market pricing.)

So-called just prices which look at prices from the producers' viewpoint are to be rejected as unsound. The only prices which can be just are those based on the viewpoint and evaluation of consumers. This is a case of *either/or*. Pricing must *finally* depend *either* on the wishes of consumers *or* on the wishes of producers. Under capitalism prices depend on *consumers*. Under collectivism (socialism, communism, and to a degree in a "welfare state") prices depends on *producers* (enforced through the bureaucracy of government).

To be willing to let prices be determined by consumers is not to let a minority control prices. There are always more consumers than producers, because every person is a consumer, but not every one is a producer; consider children, the incapacitated and the aged, who all consume but do not produce. To let consumers control prices is to let the majority control prices.

In the view here held the consumer is sovereign; not the producer. But if the consumer is to be sovereign, he must not be coerced, because if he is coerced he is not sovereign any more.

The meaning of coercion can be so varied that a further explanation is in order of what is here meant by coercion and noncoercion. It is desirable to consider four kinds of coercion, which affect the affairs of men:

1. The coercion of natural (physical) laws.

2. Coercion which affects a man, because of action based on the self-interest of others. This includes *competition,* but is not limited to it.

3. Coercion in the form of violence, fraud or theft.

4. Coercion by legislation, by laws, regulations, etc. of the government, presumably representing the majority, but maybe representing congeries of minorities, operating together at the expense of helpless or, at least, nonparticipating minorities.

Coercion From Natural Laws

Every participant in Böhm-Bawerk's two-sided exchange was under the "coercion" of physical laws. One of the sellers may have been hungry; he may have been *obliged* to sell a horse in order to have funds to buy food. Every participant was subject to the universal *welfareshortage* which affects (or afflicts, if that is the word which is unthankfully used) every member of the human race. There are *necessitous* buyers and sellers, that is people who are obliged by their circumstances—misfortune, sickness, folly, weakness, age — to buy or sell. They — we all — must "knuckle under" to the circumstances of life. There is no buying or selling which in some degree or other is not influenced by this "coercion." But coercion of this kind is not the coercion which causes a resultant price to be unjust. This (1) "coercion" and (2) injustice are not relevant to each other.

Coercion From Others Pursuing Their Legitimate Self-Interest

There is a second "coercion" which operates on all of us, but which does not (simply because it is coercion of a sort) invalidate a price and make it unjust. This "coercion" is the influence on our affairs which results from others pursuing their own interests. Suppose a man is a producer of horses. Suppose, too, that he has long enjoyed a good market. But then many others undertake to get into the horse business; then the market is glutted with horses; the business is no longer good. Again circumstances, in this case in the form of competition, affect — *coerce,* in a way — the activities of the original producer of horses. But no "injustice" has been done to him. The legitimate pursuit of others of their self-interest *as they see it* is not an act of injustice, and does not create an "unjust" price, even though the resulting price does not cover costs.

Usually, moralists do not look on fellow competitors as contributors to an unjust price; they do not look critically at the people on the same side of the market as the person whom they are considering, e.g., a buyer; instead they look at the people on the other side as the parties who might be guilty of creating an injustice, i.e., the sellers. If Böhm-Bawerk's analysis makes anything clear, it is the idea that men *on the same side of the market* can adversely affect the price as much as men on the opposite side of the market. But moralists usually limit their critique to the harsh buyers relative to the sellers; or the harsh sellers relative to the buyers; (it all depends where the moralists' sympathies lie). But critique of the parties on the other side of the bargaining table when prices are being determined is also invalid. If a man wishes to buy a horse, why should anyone be obligated to sell him a horse cheaply, or sell him a horse at all? Certainly, if there is to be freedom, neither buyers nor sellers are properly to be coerced to do what they do not wish to do.

The pursuit of legitimate self-interest by other people, on the same side or the opposite side of the bargaining table, are not really coercion. What "coercion" is here improperly taken to mean by those who criticize the operation of the free market is *factors beyond the control of an individual.* True, the pursuit of self-regarding interests by others are not amenable to control by a particular person. But to fail-to-have-control-over-others is not equivalent to coercion by them.

Coercion By Violence, Fraud And Theft

This is a *coercion* which constitutes *injustice*. This is the coercion that is forbidden in the Decalogue. This is the coercion of the wicked over the righteous; of the strong over the weak. This is the coercion which the statutes and courts of a well-ordered society will prohibit, or at least restrain.

However, such restraint (admirable as it is) is only supplementary. The best laws and the best courts *could* not function effectively alone against this evil coercion. Something more important than statutes, courts, judges and juries is needed for prices to be set noncoercively. (See the next article.)

Coercion By Legislation, By Laws, Regulations, Etc.

A may by threats and violence be able to compel *B* to exchange with *A* on terms which are unjust for *B*. Presumably, the *law* will come into operation to restrain *A* and protect *B*. But it is possible to pass laws or to appoint bureaucrats who may exercise discretion which will permit *A* and others with him *who together constitute a majority* to force *B* to make exchanges unfavorable to himself. *A*, together with *C*, *D* and *E*, may pass a law which prohibits *B* from pursuing his legitimate self-interest in the form of planting more acres in corn or cotton; or *K*, *L*, *M*, *N*, *O* and *P* may pass a law setting a ceiling on the prices of corn and cotton. In these cases the intent of private coercion is effectuated through power based on a majority. This is simply violation of the Sixth Commandment against coercion under the lofty guise of *law* and *public will*.

When justice, in the present analysis, is made dependent on the nonexistence of coercion, "noncoercion" refers only to the categories (1) and (2), namely, physical laws, and competition (and other manifestations of legitimate self-interest). Contrarily, the coercion which is considered to be invalid is that designated under the categories (3) and (4) in the foregoing.

* * *

The foregoing considers *justice* only. It does not consider alms or charity. Nevertheless, there appears to be a breach in the situation. What about circumstances where one party to an exchange is desperate, a person whose plight is such that he has lost all his options, for example, a man who needs surgery for his life and who can pay only by selling something on short notice at a low price? What should a buyer do in such a case? Is everything to be cold-blooded and is a buyer to rub his hands in glee, and trade mercilessly at the expense of another?

Such cases arise. But they are fewer than estimated. When they do arise, the man who takes "undue advantage" of another's urgent needs is not well-regarded. Public opinion condemns him. He buys his unusual financial gains at the expense of his reputation. To be a pawnbroker is not to be in the most respected business, although to be a pawnbroker is no disgrace in itself.

But there is another side to the coin. If such an operator is really taking advantage *generally* of the unfortunate (and does not on the average have losses which require hard bargains in specific cases), then his profits will be inordinate. The business then will attract others; competition will lower the extraordinary profits to a normal level.

If then you see Johnson driving a merciless bargain with Brown, why not step in yourself and offer Brown something better, taking for yourself only what is an "ordinary return" and not exploitive of Brown. The best way to correct the hard bargains of others — from which they make extraordinary profits — is to compete with them. It is not meritorious to sneer at pawnbrokers; if pawnbrokers drive too hard bargains, the thing to do is to go into the pawnbroker business on a more considerate basis.

But you may discover that pawnbrokers must operate — on the average — as pawnbrokers do, or else you will lose money. If you nevertheless stay in the business and lose money, you are really making contributions to charity. You are no longer in an exchange business, but in an alms-giving business.

How The Market Protects The Individual Trader

In a free market, with enough buyers and sellers so that there is two-sided exchange, is the inexperienced and nonpowerful seller or buyer *protected* reasonably against others — the powerful, the shrewd, the veterans?

That is an important question, because the customary assumption is that an inexperienced, uninformed, nonrich buyer or seller is at a grave disadvantage, and needs to be protected against others by a paternalistic bureaucrat. Such a buyer or seller is thought to be "on his own," unassisted by others, and consequently exploitable. Such an assumption has been shown to be invalid by the analysis earlier in this issue and in the two preceding issues. The true situation is worthy of a descriptive summary.

1. There are two marginal pairs. One of the pairs is the last to make an exchange; call them the first pair; see items marked (a) in Table I. The other is the first of the pairs not to make an exchange; call them the second pair; see items marked (b) in Table I. The first pair determines the participants. The second pair determines the range of prices, because the second pair has a price range within the first. In regard to actual trading, it is the first pair that is ultimate. In regard to price, it is the second pair that is ultimate.

2. In two-sided exchange, the individual buyer or seller does not set the price; the second marginal pair does. See pages 331-342. Everybody who makes an exchange, other than the excluded marginal pair, makes a good deal *for himself* by exchanging. Even the two members of the first marginal pair (Ae and Be) gain from the exchange; what they get is subjectively more valuable to them than that with which they part. But all the others who are in the pairs which have a still greater capability for exchange than the first marginal pair have an even bigger spread between their subjective valuations and the price range set by the second marginal pair. Those with large capability of exchange are big gainers, whereas the members of the first marginal pair are modest gainers.

Gains to individuals from exchanges are therefore never perfectly equal; (what is meant in this case by *gains* is the spread between the subjective value to a person of what he surrenders versus the subjective value to him of what he receives in place of it).

3. Those with still smaller capacity for exchange than the first marginal pair, simply are not willing to make a deal to which others will agree. They are outside of the market, but they hover on the edge, and when their valuation and that of others change, they may be able to participate.

4. The second marginal pair, whoever they *happen* to be, determine the price. That one would-be buyer and one would-be seller constitute the ultimate marginal pair in regard to price is not *their* doing. That the "lot" falls on them to be that marginal pair depends on how many others there are ahead of them in capability to exchange. If one of these drops out or another comes in, there will be a shift in the marginal pair.

Böhm-Bawerk is meticulous and detailed in regard to the marginal pairs in his exposition; see page 336. His explanation of the marginal pairs is complex. If the answer in regard to price determination is to be simplified, then it would read this way: *the marginal pair consists of the would-be buyer and the would-be seller who come the closest to making an exchange but fail.* The price will fall between the bid of that would-be buyer and the offering of that would-be seller. (In Böhm-Bawerk's illustration that buyer was *Af* bidding $210 and that seller was *Bf* offering a horse at $215.)

5. It is now possible to state a conclusion in genuinely two-sided exchanges of commodities or services, namely: an inexperienced or weak buyer or seller, provided he informs himself on what the market is:

> (a) will not be able to buy or sell if his subjective evaluation is outside the range of the marginal pairs; he will not make an exchange, because he has priced himself one way or the other more demandingly than the real market; consequently, he cannot be "hurt" by others:
>
> (b) he will be able to buy or sell advantageously to himself if he is not one of the second marginal pair determining price, but has a greater capacity of exchange than the members of that marginal pair. He will be getting a higher price if he is a seller, or paying a lower price if he is a buyer, than his subjective valuations indicated, and than he was actually willing to deal. He does not lose; he gains.

6. If he was too opinionated to heed what the higgling of the market revealed the valuations of the second marginal pair to be, he should blame himself. If he had ascertained what the market is, he needed only to make his own offer better than that of the second marginal pair (if his subjective valuations permitted

that), and then he would have made an exchange advantageous to himself.

Nothing in this world promotes justice more than the development of genuine two-sided exchanges in the "markets" of the world, for commodities and services. Competition in two-sided markets protect men far more than judges, bureaucrats or policemen.

Relation Between Prosperity, Principles Of Morality, And Pricing

Natural Poverty Of Men
Safety Of Property A Prime Requisite To Prosperity
Exchange, As A Requisite To Prosperity
Pricing As The Crux Of Exchange
The Term, Right Of Property, As A Violation Of Occam's Razor
The Socialist-Communist System Of Pricing
Cannot Be Other Than Plagiarized (Copied) From
Free Markets, And Cannot Become World-Wide
Backward Nations Must Adopt Free-Market Pricing
A Destructive Factor Presently Incorporated
In The Markets Of The Western World

More should be written about pricing, but the foregoing must suffice. A few remarks will be presented regarding the cause of poverty, the requisite foundation of prosperity, the beneficent effects of exchange, how exchange depends on *free-market pricing,* how socialism-communism cannot become world-wide as an economic system, how the backward nations must adopt free-market pricing if they wish to escape their economic backwardness, and how the free market pricing system is being undermined in the Western World by a deplorable policy of emitting fiduciary media.

Although understanding the free-market system as it has been explained in the foregoing is of great importance, the principles on which free-market pricing rest are of even greater importance.

Natural Poverty Of Men

The Hebrew-Christian account of the origin of man makes clear that man was created *poor.* He was a wandering fruit, berry and nut picker. He was at once presented with the problem whether he would stay in that condition by refusing to recognize property rights; the fruit of one tree in the Garden of Eden was reserved from him. On test he refused to recognize property rights, and ate. By this act he disqualified himself from organizing a settled society, because in such a society property must be safe. The alternative was to continue to be a wanderer subsisting off what grew naturally. That is a system that can survive without property rights. It is a system of "first come, first served," or a system of "finders are keepers." But it is the poorest and most precarious system for survival. That is what happened to Adam; he was driven out to be a wanderer.

Safety Of Property A Prime Requisite To Prosperity

Although to be a gleaner of berry, fruit and nut trees and a hunter and fisher does not require strong property rights, to be a tiller of the soil does require it.

No society can have a good living until its members work to increase production by tillage, rather than glean what grows naturally. A man will not work to produce unless he expects to have a fairly sure claim to the results. Property rights are essential for a society based on tillage; (these rights may be for a tribe in some cases, rather than for an individual). If the remuneration of productive labor is in doubt, men will take to marauding rather than to working. Even primitive prosperity depends, therefore, on property rights.

The greater the amount of property that exists, the greater the need for property rights. The prime foundation under prosperity in the Western World is the existence there of a large amount of *capital per capita*. The lesser prosperity everywhere else in the world exists because there the capital per capita is less. Capital per capita is less there because property has been less safe there. Cause and effect are obviously operative in this situation.

Exchange, As A Requisite To Prosperity

If men were berry pickers for centuries, and tillers of the soil with each family producing only for its own consumption for further centuries, the increase in savings and capital and the discovery of the benefits of specialization in production inevitably brought on a third era—the era of exchange.

The modern age is the acme of what men have been able to develop thus far in an exchange economy. By specialization, especially with the aid of capital (tools, power, etc.), production has been enormously increased in areas in which the Western Economic System prevails. Shoes are made today by mass methods; similarly bread, etc. But mass-produced shoes and bread, etc., must be *exchanged*. Exchange and prosperity are inseparable today.

Pricing As The Crux Of Exchange

But when exchange became the basis of prosperity which was beyond what could be raised self-sufficiently on an isolated farm and consumed there, then the prices by which the exchanges were accomplished became of crucial importance. To "coerce" the prices in exchanges in its result was the same thing as marauding a settler's farm. In the one case, the marauder would merely wait until harvest; in the other, he would simply wait until the time when the price was to be determined. In an exchange economy, then, unless prices are "free," the right of ownership of property is effectually frustrated or "frustratable." To rob a man today it is not necessary to trespass on his property, beat him, and seize his goods; instead, merely force him to sell for less or buy for more. That is a suaver way to rob, and it is the way that it is being done.

The Term, Right Of Property, As A Violation Of Occam's Razor

Right of ownership is not a special right, which the Decalogue failed to specify. Right of ownership is *implicit* in three of the Commandments against (1) coercion (the sixth), (2) theft (the eighth), (3) falsehood or fraud (the ninth).

It is legitimate to give one of the consequences inherit in those Commandments a new name, to wit, *right of property,* but the "right" is fully included in three Commandments themselves. Deny to men the right to coerce, steal and defraud, and you have thereby legislated private property.

In a sense, it is never necessary to use the term, right of property, or to appeal to that right. Omit the term entirely, as a violation of Occam's Razor, *Entia non sunt multiplicanda praeter necessitatem*. Instead, keep matters simple — mention only, insist only, on the three pertinent Commandments in the Decalogue. Save yourself the trouble of coining a new term, right of property, beyond the Commandments.

To understand the causal connection between the Commandments and the right of private property is tantamount to realizing that price controls are contrary to the Decalogue.

The Socialist-Communist System Of Pricing Cannot Be Other Than Plagiarized (Copied) From Free Markets, And Cannot Become World Wide

The Böhm-Bawerk exposition of price formation, presented in the foregoing issues, entails a clear understanding of simple but in some cases unfamiliar ideas: (1) marginal pairs, (2) marginal utility, (3) subjective value, (4) scarcity, (5) welfareshortage, (6) noncoercion (freedom), (7) nondeception (honesty). Value and price in this system depend on demand.

The socialist-communist system is different. It does not use these concepts, but has irrational and mystical thought categories contrary to fact. In simplest language, socialists-communists declare that value and price depend on costs.

Can an economy be built on valuations based on costs? The answer is, *No.* See the conclusive argument against the independent workability of the socialist-communist proposed price system in Ludwig von Mises's, *Socialism,* (Yale University Press, New Haven, Conn., 1951), pages 131ff. and elsewhere. Mises shows that if the *whole* world is organized on a socialist-communist basis, the world will then be devoid of the factual material necessary for economic calculation and planning.

Presently, socialist-communist political economies are plagiarizers — copiers — of prices set in free market countries. They may be unconscious plagiarizers, but their system, if independent and able to lean on nothing else, is unworkable.

Backward Nations Must Adopt Free-Market Pricing

The Free World, befuddled by fallacies, and confused by credit intricacies and dishonesties which have become incorporated in its monetary system, has lost virile faith in the unique merit and workability of price formation in a free market, *according to the Commandments in the Decalogue.* The Free World no longer "exports" the ideas on which its original welfare depended; it is itself carrying on only on the momentum of the institutions established by ancestors who did understand first principles.

But the backward nations cannot emerge from their plight unless they adopt the original principles of price formation on which the prosperity of the Western World has been built. The backward nations cannot inherit or copy the welfare state from the Western World *directly*. They will first be obliged to establish a free market economy, and then their own welfare state can feed on that as a cancer on healthy tissue if they wish that.

A Destructive Factor Presently Incorporated In The Markets Of The Western World

Finally, the just and intelligent system of price formation, based on rules set by the Decalogue, which has made the political economies dependent on it spectacularly prosperous, is being systematically undermined by the contra-Decalogue practice of issuing *fiduciary media*. If continued, this practice will create the *chaosification* of the capitalist world. The consequence will be a turn in desperation to strong men, tyrannies, and collectivisms. Modern men may, unfortunately, have to go through the deep valley of economic dark ages in order to recover their awareness of the validity of the Commandments against coercion, theft and fraud, just as the ancient classical world collapsed under the invasions of the barbarians from the north.

Regarding the phenomena of fiduciary media and its consequences, see Volume V, pages 97ff.

* * *

Finally, principles of price formation are not mere technicalities of economics, but specific applications of general moral principles.

(*In regard to future issues, see pages* 353-4).

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