

FIRST PRINCIPLES IN MORALITY AND ECONOMICS

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

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One Cause Of A Shortage Of Money

A "shortage" of money may be caused by the quantity being increased rapidly. If the question is asked how that can be, the answer is: when the quantity of money is being increased rapidly (as in rampant inflationism), sellers know that, and realize that they must charge prices high enough now so that when they will be buying later with the money they get from the current sale, they will have enough to buy at the higher prices prevailing at that future date, even though it is not distant. In other words, *price increases will have a tendency to move up faster than the printing presses can print money.* Such price increases are a type

of defensive action by sellers to avoid suffering a shrinkage in their capital in the interval before they buy again.

The imagination of men can easily outrun the printing presses in the world. The pace at which prices are increased has a tendency to become furious because it is fired by fear of inflationism.

An *apparent* shortage of money, therefore, will be caused by an increase in money, if the current and prospective increase is known to sellers or is feared by them.

Hume: More Money Merely Raises Prices

An increase in the quantity of money does not increase the quantity of products. It only increases prices, not prosperity. Hume stated that clearly when he wrote in his essay "Of Interest" in his *Essays Moral, Political and Literary* (Grant Richards, London, 1903):

"All augmentation [of money] has no other effect than to heighten the price of labour and commodities; and even this variation is little more than of a name. In the progress towards these changes, the augmentation may have some influence, by exciting industry; but after the prices are settled, suitable to the new abundance of gold and silver, it has no manner of influence."

The "issue" between the Canadian lady (to whom we referred in the preceding issue) who believes that increasing the quantity of money increases prosperity, and Hume, who held that increasing the quantity of money merely increases prices, is obvious.

(Note: The Canadian lady's argument involves what is known in technical economics as "forced savings," which some people may favor because they believe it affects aggregate production.)

Laughlin And Mises On An Important Phase Of An Alleged Money Shortage

J. Laurence Laughlin in *The Principles of Money* (Charles Scribner's Sons, New York, 1921) on page 413 wrote (our italics):

... A man who needs means of payment is too apt to think "money" is scarce, or hard to get, when *in reality he is suffering from a scarcity of salable goods or securities*. In a time of stringency each man is thinking of how he can get the means to meet his obligations when due . . .

Why cannot a man meet his financial obligations when they

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are due? Usually, because (1) he has not produced at all, or successfully enough, to have merchandise for sale which will yield him the money he needs, or (2) he has at least miscalculated the time when he would have produced enough to obtain by sale the money he needs.

If people, in *ordinary* times, have not enough money to buy what they think they need, it is because they themselves have not first produced enough of what others want, and which could be sold to them. (In an acute crisis, that is, in *extraordinary* times, there will be another cause operating to create a money shortage. This will be discussed in a later issue.)

Mises has summarized the situation in his *The Theory of Money and Credit* (Yale University Press, New Haven, Connecticut, 1953), page 441:

Inflation and credit expansion are the means [which are advocated or employed] to [obscure] the fact that there prevails a nature-given scarcity of the material things on which the satisfaction of human wants depends.

The trouble is a scarcity of real things. The solution which will solve the problem is *more production*. But instead many people turn to a wholly different solution, *more money* — more pieces of paper, more fiat credit.

According to the ancient Hebrew Scriptures, even the first man was told that there would be material shortages — and that prosperity would be attained only by work, by *more production* (Genesis 3:17c). If Moses had been as unrealistic in his thinking as some modern people are, he would not have written: “in *toil* thou shalt eat [from the fruits of the earth] all the days of thy life”; but instead: “by creating fiat credit (printing paper money or its equivalent) thou shalt eat [from the fruits of the earth] all the days of thy life.”

Simply to contrast the two ideas is to make it obvious that Moses was not deceived about what was needed for people to be better off; what was needed was *work*, not money in the form of fiat credit.

The Counterfeiter's Sin

If a government may manufacture money, why may not an individual do the same thing? If it is morally right for a government to manufacture money, or to authorize certain people to manufacture money (let us say, bankers), then it should be

morally right for any individual to manufacture money. It is a poor rule which does not apply equally to everybody.

Wherein does the *sin* of manufacturing money (fiat credit) exist?

Money problems are intricate and confusing unless a man has a knowledge of certain basic ideas regarding money. For our purposes here we shall accept the idea of money as a *medium of exchange*. Money exchanges for goods. A man acquires money by producing goods or services. He does something *first*—he *produces* or *performs a service*. Then with the money which he receives he conveniently buys what he wishes, namely, goods and services which others have produced. Such a man is never a buyer except when he has been an antecedent producer. And so the *real* transactions in life consist in the exchange of goods and services—the exchange of genuine objects of benefit between fellow men.

The issuer of fiat credit or the counterfeiter becomes a buyer on a different basis. He prints some paper but performs no service; he becomes a buyer *without having been an antecedent producer*. He withdraws goods from the reach of buyers who have genuinely been antecedent producers; he is therefore a cheat and a thief. He has violated the Eighth Commandment (Thou shalt not steal), and the Ninth Commandment (Thou shalt not bear false witness—deceive and defraud).

A banker operating under the Federal Reserve Banking Act who puts out fiat credit does not act significantly differently from a counterfeiter. A banker issuing fiat credit injects "counterfeit" purchasing power into the business situation just as a counterfeiter does. But his position is in part different. The actual buyer, using the bank-created fiat credit (one type of counterfeit purchasing power), is the customer of the bank rather than the banker himself.

The bankers, therefore, are *not* the real "beneficiaries" of the issuance of fiat credit. The "beneficiaries" are the borrowers of fiat credit—certain people in the United States. The bankers have utilized the lush income from fiat credit to perform all kinds of banking services *without charging adequately for them*, so that the privilege of issuing fiat credit, which would be enormously profitable to bankers if there were no competition among them,

has been passed on or "distributed" to their customers in the form of not charging fully for banking services of one kind or another.

Although fiat credit receivers are *morally* in the same position as counterfeiters, *legally* they are in a different position — respected citizens rather than criminals. The root cause underlying this amazing inconsistency is a failure to distinguish between credit which has been brokeraged and credit which is created by fiat (without antecedent saving). *Everything* depends — if thinking on money, credit, the business cycle, employment and prosperity is to be sound — on *distinguishing always* between brokeraged credit and fiat credit.

An Unconscious Unfairness Of People Who Demand More Fiat Credit

There are two popular explanations of a depression. They are:

1. A shortage of money;
2. Overproduction.

These are old fallacies.

Adam Smith demolished the theory that the cause of bad business is "a shortage of money." (The basic cause of "bad business" or a low standard of living is low production.)

Jean Baptiste Say demolished the theory that the cause of bad business is "overproduction."

No one has ever successfully refuted either Smith or Say.

The Canadian lady referred to in the preceding issue was, obviously, of a school of thought that held that any deficiency in business, either a depression or business not booming enough, was essentially a problem of "a shortage of money," or at least a need for more money. She probably had never heard of Adam Smith, or his argument against the theory that a "shortage of money" was the explanation for bad business.

There is a subtle unfairness almost always present in the demand for more money (in the form of fiat credit or otherwise). Mises has outlined that in his *The Theory of Money and Credit* (Yale University Press, New Haven, Conn., 1953) page 423:

The oldest and most naive version [to explain the business cycle] is that of the allegedly insufficient supply of money. Business is bad, says the grocer, because my customers or prospective customers do not have enough money to expand their purchases. So far he is right. But when he adds that what is needed to render his business more prosperous is to increase the quantity of money in circulation, he is mistaken.

What he really has in mind is an increase of the amount of money in the pockets of his customers and prospective customers while the amount of money in the hands of other people remains unchanged. He asks for a specific kind of inflation, namely, an inflation in which the additional new money first flows into the cash holdings of a definite group of people, his customers, and thus permits him to reap inflation gains. Of course, everybody who advocates inflation does it because he infers that he will belong to those who are favoured by the fact that the prices of the commodities and services they sell will rise at an earlier date and to a higher point than the prices of those commodities and services they buy. Nobody advocates an inflation in which he would be on the losing side.

Our Canadian lady *unconsciously* had the same *assumption* in her mind: the customers of her husband's business were going to be the *first* to get the fiat credit. By being first they would be gainers *at the expense of all who did not simultaneously get equivalent fiat credit.*

The people who gain from the increase in money are those who buy before sellers generally realize the fact that an increase in money is occurring, and its significance. Those who realize early that money is being increased or who are the direct recipients of that money are gainers at the expense of those who realize only later that money has been increased, or who are not early recipients of that increased money.

It is a fallacy to believe that *all* people gain from inflationism. What one gains another loses. In fact, the losses from inflationism exceed the gains.

Not All "Trouble" Is Caused By Sin

It is an error to ascribe *all* of the "trouble" of the world to sin. Scripture does not teach that all trouble is because of sin. Indeed, a few texts may be selected to "prove" that there is no trouble except that which finds its origin in sin, but the texts are *selected* to prove a point and result in a cosmology as reasonable as the idea that the world is flat.

Men have trouble — a lot of trouble — because the world is finite and is governed by *general* laws. The emphasis here must be on the word *general*. Natural laws operate regularly and do not adjust to human needs or wishes.

Contrarily, men's needs and wishes are innumerable and endlessly variable. They vary with time, place, condition, circumstance. The number of variations are almost beyond mathematical calculation.

It is because man's needs are innumerable and endlessly variable while natural laws are general and invariable that there is a lot of "trouble" in the world.

Imagine a family looking out of their window upon a large yard of green grass. Imagine, further, an argument, in which some members of the family allege that sin is the only cause of any trouble in the world; and imagine others alleging that sin was the cause of some of the troubles of the world, *but not all of them.*

A spokesman for the latter might argue as follows: "That big yard requires a burdensome amount of work. It were much better to live in an apartment. In the 'sweat of my brow' and with 'toil' and in weariness I must mow that lawn. A day is lost every week to mow the lawn and trim the edges. What a lot of trouble! That that grass grows and causes burdensome work is not caused by my sin, nor Adam's sin, nor anybody's sin. That grass grows is a natural phenomena, which unfortunately requires me to mow it."

Then he continues his argument: "But in the northwest corner there is some special grass, which grows only so much, then stops, and which does not have to be mowed. When I seeded that grass and reduced the work of mowing, was that associated with my sinning less? Was my work reduced because I was living a better life, or was merely a natural law involved of seeding in a certain kind of grass?" There is likely to be silence on that argument. What indeed can, in good sense, be said against it?

But the spokesman continues his explanation of his views. He says: "All right, I'll seed the whole yard with this special grass and the lawnmowing 'toil' will practically be over. Shall I be almost sinless?"

"But now my needs and wishes change. I buy a cow, because I need milk. I wish to pasture her in this big yard. I build a fence. But the cow does not get enough to eat. The grass in the pasture is of the wrong kind. For the *present* purpose, I need fast-growing grass, just the opposite of what I have recently seeded. Now, I must 'toil' earning money to buy hay, and transport it to the pasture. The short grass is presently a bane to me. If only I had left the fast-growing grass in that field!"

Clearly, *toil and sweat of the brow* is here the result of a man's *varying special purposes*. The general laws of nature could

not be expected to dance around and change to every change in every man's need and every man's wish.

Some of the trouble of the world is due to *sin*, in fact the worst trouble by far. But some "trouble"—toil, sweat of the brow, weariness—is caused by the character of creation, to its invariable natural laws which cannot be expected to adjust to the infinitely varying needs of men.

The purposes of men are too many and varied for the general laws of God to be able to provide satisfaction. Therefore work is necessary; sin operates to aggravate the work but it does not "cause" the work.

Two Objections To Fiat Credit

(Any "benefit" is temporary; a later penalty is sure. Also, Fiat Credit is class legislation, that is, it is for some at the expense of others.)

In the preceding issue a sharp distinction was made between *brokeraged credit* and *fiat credit*. The former is beneficial to society, and is in conformity to the generally accepted moral law. The latter is damaging to society, causes business booms and depressions, and is contrary to the moral law; it is *theft*.

Nevertheless, as we illustrated in the earlier issue by citing two examples, respectable business and professional people are enthusiastic about fiat credit. They sincerely believe that fiat credit is profitable to society; but they are wrong in their morals and economics.

The teaching of the ancient Hebrew-Christian religions is that theft is inexcusable, and is *sin*. Further, these religions teach that the consequences of sin are *always* bad. These religions allege that there is a cause and effect relationship—whenever you sin, you will be punished (at least, suffer unwished consequences). When, nevertheless, nearly everybody seems to want fiat credit, there is almost universal confidence that in this case the consequences will be good, not bad. Either the old morality is wrong, or there must be something wrong about the reasoning of men about fiat credit.

Let us consider the argument of the wife of the French-Canadian retail equipment dealer quoted in the preceding issue. As a *French-Canadian* she would naturally vote for Liberal party candidates in Canada, but she testified that at the latest election

she had voted Conservative. The reason she gave for this switch was approximately in the following words:

Under the Conservatives it is easier to help the buyer finance the purchase of industrial equipment; therefore, we can sell more; therefore, we are making more money; we like the increased prosperity. The buyer of the equipment puts it to work, and the equipment increases his earning power so that he can easily pay off the loan. The equipment actually "pays for itself." We voted for the Conservatives because they are increasing prosperity. The key to it all is that they have made more credit available.

The "credit" to which this little lady referred was *fiat credit*, manufactured in accordance with the law, that is, with the full approval of the government.

In the preceding issue we gave a simple illustration of what fiat credit does to business, as follows:

. . . Assume ten people in a society. They buy \$100,000 a year on a non-inflationary (that is, non-fiat credit) basis. Everything is in balance. Each consumes on the basis of what he produces himself, or exchanges freely for what others produce. Nobody is robbing anybody else of goods. In this stable economy, without booms or depressions, the law (let us assume) is changed to permit the injection of \$20,000 of new fiat credit. Not one bushel more of wheat, nor one yard more of fabric, nor one pound more of steel has been produced; but two men (of the ten) each have double the old amount to spend; instead of \$10,000 they have \$20,000. What will they do? They will quietly buy up with their extra \$10,000, \$20,000 worth of goods that the others otherwise would have bought. They "rob" the other eight. In the process, the others will discover that two of their number, not having produced a whit more, are literally robbing them (because the two are buying with their extra \$10,000 each). In order not to "get left out" the others begin bidding up prices. In fact they all begin to bid higher. But in the end, the two have robbed the other eight significantly.

But these two must pay back the fiat credit, say in the second and third years thereafter, at \$5,000 a year each. Then the fiat credit, we assume, is cancelled by not being renewed. Now what happens? Buying power declines *below normal* by \$10,000 each year. What is produced in goods will not be saleable any more at the current prices. Either merchandise will be unsold, or prices will have to drop. Here are the purchasing power figures by years:

Normal year (without fiat credit)	\$100,000 — normal
Fiat credit-extension year	120,000 — boom
First Fiat credit pay-off year	90,000 — depression
Second Fiat credit pay-off year	90,000 — depression

The \$120,000 year is what people call a boom year; the \$90,000 years are what people call depression years. This society of ten men would have been better off if they had never had the \$20,000 fiat credit. The fiat credit did not enlarge their market; it only made it unstable.

In four years this imaginary community, without fiat credit, would have done \$400,000 worth of business (at the steady rate of \$100,000 a year). Instead, by employing fiat credit, it did as much as \$120,000 in one year, and only \$90,000 in two years. But the total is still \$400,000 — and not a dollar more.

Nevertheless, our French-Canadian lady alleges that fiat credit creates more prosperity. How does she reason defectively?

In the first place, she is not reasoning “for the long run” — but only for the near future. In the second place, she is not reasoning for everybody in Canada, but only for herself and for others who are granted fiat credit.

In regard to morality, a basic premise should be kept in mind. Morality is neither short-sighted nor nonuniversal. Rules of morality should take the *long view* and should be applicable to *all men* without discrimination.

In our illustration, those who issued the \$20,000 of fiat credit did not take the long view. They, obviously, did not take into account the repayment of the credit. If they had done so, they would have said to themselves, *why* put out the fiat credit and make business boom in the near future, but consequently make it correspondingly depressed two and three years hence? The only way that there can be a denial of the certainty of a future depression balancing off the earlier boom is if it is openly or tacitly proposed that the fiat credit *never* be repaid. That may *appear* to be a solution of a depression offsetting a boom, but creates other and even worse problems (to which it is not desirable to digress now). In our illustration then, “prosperity” is apparently promoted while the fiat money is first being spent, namely, in the second year. But the consequences, in our illustration, come as soon as the third and fourth years. In actual life, the depressions come whenever the fiat credit debt is liquidated.

Our Canadian lady, when she reasoned as she did, violated not only rules of morality, which are far-sighted, but she also violated a basic rule of economics, namely that *ultimate* consequences rather than *immediate* consequences should be a major feature of economic analysis and consideration.

In regard to the question who one votes for, voters are constantly presented with the choice of voting for those who seem to help the public today but who definitely hurt it tomorrow, versus

those who do not consider it the task of the state to help today at the price of hurting tomorrow. We are not concerning ourselves with Canadian politics, nor are we favoring liberals (St. Laurent's party), nor opposing conservatives (Diefenbaker's party), but if it is a question solely of issuing or not issuing fiat credit — and if this lady was right that the Conservatives were issuing more fiat credit than the Liberals were willing to issue — then *on that issue* she was making a mistake when she shifted from the Liberal to the Conservative party. She was, in ethical terms, merely voting for more sin. She was voting for prosperity this year to be paid for by a depression next year or so. In parallel language she was voting for theft today but with the thought that, because it was *public theft approved by the law of men*, the penalty could be escaped. There is no question that certain obvious penalties of misconduct can be escaped by various devices, but then the penalty shows up in some other form. The penalty in this kind of a case is not imprisonment, but a future depression.

The Canadian lady's views, however, are not deficient in regard to *time* only, but also in *extent* or *universality*. There are no grounds for disputing her allegation that *her husband's* business had improved temporarily by the policy of the new party in power in increasing fiat credit. His customers' affairs were also undoubtedly improved. Similarly, the affairs of all others who participated in this increased fiat credit were improved. But was *everybody* in Canada benefited by the more liberal fiat credit policy? Of course not. Every holder of money was hurt, because "counterfeit money" (in the form of fiat credit) came in to compete with the existing stock of money. This is true not only of every holder of money, but of everyone who was a creditor, that is, everyone who was going to be paid back in dollars in that boom year. When such a person received his dollars, and wished to buy, he found himself competing with the equipment dealer's customers who were buying with fiat credit. At that moment there was no more equipment on hand than there would have been had there been no issuance of fiat credit. The would-be buyer who was using fiat credit was therefore an interloper, an illegitimate buyer. He had not *saved* in order to buy.

It will help to clarify the problem if an assumption is made. This lady said that fiat credit is excellent. If it is, then *everybody*

ought to get it. Let us assume that fiat credit increased the purchasing power of her husband's customers by 20%. Now assume that everybody in Canada had a corresponding 20% increase in purchasing power, *at the same time*. At that moment there would not be one article more to buy just because the power to buy had been increased 20%. After the first surprise about having 20% more money, everybody would proceed to buy or try to buy what they had wanted but previously did not have the money to buy. But they would quickly become alerted to the realization that with more money, but not more products, the products were too few to go around for all. Immediately, prices in various ways would be increased to balance goods and money. (That does not mean that *all* prices would go up *exactly* 20%.)

Let us think in the terms in which the Canadian lady might have been thinking; let us say, in terms of road scrapers. Because fiat credit was extended to her husband's customers, they would buy (say) six scrapers instead of five, that is, 20% more. But everybody else using scrapers, let us assume, also had 20% more money. At the given moment the supply of scrapers was static; (*later* more scrapers might be built). But *at the moment* "demand" had "increased" by 20%, by fiat-credit creation. All buyers would compete on that basis. Their competition would not increase real prosperity, but the price of scrapers would rise (as soon as all knew that all others *also* had 20% more money). Demand would *appear* to be greatly increased. Manufacturers would schedule to produce more. But they would be disillusioned the next year, *unless there was a new dose of fiat credit* injected into purchasing power at that time. If not, and while the present buyers were paying off their debts acquired through these fiat credits, there would be a depression in the scraper business.

What our Canadian lady was saying, if her proposition were accurately formulated, is this: "Because the new government permitted increased fiat credit, therefore (1) our particular business was stimulated temporarily (but we realize that there will be a penalty later when we shall be correspondingly hurt); and (2) we have been benefited because we were *early* beneficiaries of the more-liberal fiat credit policies. Fiat credit benefits the class that first gets the fiat credit. We were in that class. We voted for a party

as we did, because we expected that it would pass laws that would help us at the expense of others."

This by no means answers all that the lady was alleging, but sets her claims in the proper light.

The Canadian Lady As A Lawmaker

(as distinguished from being the recipient of
"benefits" from immoral legislation)

The Canadian lady will face serious problems if she moves from a country town (as wife of an industrial equipment dealer), to Ottawa, the capitol of Canada, as a lawmaker. In her former capacity she can appraise fiat credit as something that, from her viewpoint as an early recipient of the "benefits," is a profitable thing for her. But if she must become responsible herself for the *policy* in which she hopes for a benefit, from among what policies will she be obliged to make a decision. A lawmaker cannot justifiably pass laws on the basis of surface evidence, or on the basis of failing to take ultimate consequences into account. Nor can a voter vote in favor of a party which does not have a far-sighted policy. The lady whose *fiat credit* views we have presented in the preceding issue (pp. 125ff.) might change her views radically if she became a responsible lawmaker rather than an ordinary citizen. In this article we shall outline some fiat credit problems she would, whether she liked it or not, have to face as a lawmaker. These problems are inescapable for all of us whether we go to Ottawa or Washington or London as lawmakers.

These *inescapable* problems can be stated so that every voter can understand them. To that end, we shall continue to use our imaginary society of ten people with a \$100,000 economy. Our illustration involved, first, a normal year of \$100,000; then a boom year of \$120,000, the result of two of the ten citizens being authorized to buy by means of fiat credit \$20,000 extra; then two depression years in which the fiat credit citizens were paying off the fiat credit at the rate of \$10,000 a year, causing thereby two depression years of \$90,000 each.

Let us assume that our Mrs. Canadian became a Canadian senator during the boom year of \$120,000. What problems would she be obliged to face? She would have to decide between several policies, each of which would be accompanied by momentous consequences. Here they are:

1. Is the \$20,000 fiat credit to be a one-shot dose, to be liquidated not only by repayment, but also by genuine *cancellation* of the fiat credit? Readers will remember that we ourselves have previously assumed that the fiat credit would be repaid in the third and fourth years. We *assumed* that. But the probabilities are that our Mrs. Canadian would not be sure she wanted the fiat credit to be genuinely liquidated. She would probably think out loud in this manner. "I want the fiat credit. I want the first debtor to make regular payments to repay his *particular* debt. But I do not want the fiat credit to be liquidated. As fast as the first debtor pays on his debt, I wish to re-use the funds for financing another sale to another equipment buyer, a buyer who will be unable to buy unless he can have made available to him this fiat credit. I wish to use the fiat credit over and over." When our lady learns, too, that actual liquidation — cancellation or elimination — of the fiat credit (in the third and fourth years) will entail a depression at that time, she will think long and hard before, as a national senator, she votes in favor of not permitting re-use of the fiat credit after the first time. Almost certainly, being prompted by an unwittingly dishonest rather than a wise self-interest, she will reject policy number (1), namely, a single-dose shot of fiat credit, which is to be withdrawn or cancelled or liquidated — use whatever word you wish — upon repayment by the first user of that fiat credit.

2. This brings her to the second policy she can follow as a lawmaker, namely, a one-shot dose of fiat credit, which once issued is *never* to be withdrawn. Almost certainly she will like it better than a one-shot dose that has to be "paid up," and by being "paid up" will remove the fiat credit from the money situation. She will be greatly influenced by the idea, if it occurs to her, that by re-lending the fiat credit to a third party as fast as the first debtor pays off, *there will be no depression*. What will happen if *fiat credit* is not to be cancelled? In our regular four year series we then get:

Normal year (without fiat credit)	\$100,000 — normal
Fiat credit-extension year	120,000 — boom
Third year; no payment on fiat credit	120,000 — normal
Fourth year; no payment on fiat credit	120,000 — normal

Our lady as a sharp business woman will be making an important distinction, to wit, she knows that the first debtor using

fiat credit must repay the loan faster than the equipment wears out, but — and this is a policy she will almost surely come to — she will wish to use and re-use that fiat credit with a whole series of buyers who can buy only if they can borrow the money first with which to buy. We might put it this way: this lady will wish *individual* debts to be paid conscientiously and thereby be liquidated, but she does not want the public use of that fiat credit ever to be terminated. As has been made clear, fiat credit is a substitute for money — and is in a sense money itself — and so our lady wants any money that has been manufactured to be left to exist. If on the other hand, a counterfeiter and his counterfeit money were apprehended, she would vote to have the man put in jail and have his counterfeit bills burned. But in regard to fiat credit, which is no less counterfeit than counterfeit coins and bills, she will probably not want the issuer to be put in jail nor his counterfeit money — fiat credit — to be destroyed. Herein she would be inconsistent.

3. There is a third policy which may look even better to our lady. Just as policy number (2) avoiding cancellation of fiat credit looked better to her than policy number (1) which would mean a single, "one-time" use of fiat credit (*to be cancelled upon the first repayment*), so a third policy will be a great temptation to her, namely, a policy to issue *more and more* fiat credit. This is not a single-shot dose of fiat credit followed by cancellation; nor a single-shot dose to be left permanently in the money system, but this is a policy of steady new doses added to all the old which are to be retained. Such a policy will make our table look as follows:

Normal year (without fiat credit)	\$100,000 — normal
Fiat-credit extension year	120,000 — boom
Second Fiat credit extension year	140,000 — boom
Third Fiat credit extension year	160,000 — boom

Why not do that? Put out each year \$20,000 of new fiat credit and *never* cancel *any* of it. Then we will have a continuous boom! That is what our lady unwittingly wanted as a dealer's wife in a small town. That is what her constituents want now that she is a senator.

In fact, it is almost obligatory to do that. There is hardly an option not to do it, if you think about it. When the program was \$100,000-\$120,000-\$90,000-\$90,000 — who would really be satisfied with one spree followed by a headache! When the program was

\$100,000-\$120,000-\$120,000-\$120,000 — then the only real “shot in the arm” was in the second year, when the jump was made from \$100,000 to \$120,000. But thereafter the stimulus was gone — things settled down to the \$120,000 level. If the stimulus was good — and many if not most people agree with our lady senator that a fiat money stimulus is wonderful — then the stimulus must be repeated and repeated. Further, to make a sudden jump from \$100,000 to \$120,000 and then to continue at \$120,000 without further increases would make the second \$120,000 year look like an ordinary year. What makes a year look good is its rise above the previous year. Anyway, who wants a normal year, when it is possible to have a boom year. A *level* of \$120,000 will soon be taken as a *normal* year. To have booms, gains on gains must be made, and the series must become \$100,000-\$120,000-\$140,000-\$160,000 — that is, more and more fiat credit, without ever really “liquidating” any of it out of the money stream.

4. There is a fourth policy which may look still better. The series might be \$100,000-\$120,000-\$150,000-\$190,000 — that is, the fiat credit might be augmented each year more than the previous year. The increase in the foregoing series is \$20,000 the first year; \$30,000 the second year; \$40,000 the third year. None of this is ever to be withdrawn. Then, some might say, we have the real basis for a continuous boom! But do we? Every government and every people that has ever tried it has always had a catastrophic collapse.

As a lawmaker the Canadian lady can have any of these alternatives. She must select one or another. She cannot avoid a selection.

Alternative number (1) means an early and small depression. Number (2) mean a slower and longer depression. Number (3) mean continuous inflation to be followed by something worse than a depression, namely, eventual complete economic disorganization. Number (4) means a runaway boom ending in catastrophic collapse.

There cannot *in the long run* be any good that will come from a fiat credit policy.

Henry Thornton

In 1945 a delightful book was published in England entitled *These Remarkable Men*, (Lutterworth Press, London). The author

was John A. Patten. Evangelical Christians will find this little book an excellent addition to their libraries.

The book contains sketches of nine men — Wilberforce, Teignmouth, Sharp, Thornton, Stephen, Zachary Macaulay, Grant, Babington and Buxton — nine of the men who founded or were active in the British and Foreign Bible Society.

These men are known in history as "the Clapham Sect." Clapham was, 150 or more years ago, a handsome suburb of London. The men, themselves, were devout evangelicals in the established Church of England. Working more or less as a team, and of course, with the cooperation of others, this group of "remarkable men" made history by (1) organizing and promoting the first English Bible Society, and (2) persuading England to ban the slave trade. Read the fascinating little book, and be inspired to equivalent great deeds in our own day!

The first Treasurer of the English Bible Society was Henry Thornton, one of the sons of John Thornton (1720-90), famous philanthropist, and prominent merchant banker. Henry at age 30 bought Battersea Rise House in Clapham, and this in time became a center for the Clapham team. Henry Thornton was a member of Parliament, a prominent banker, and the most important theorist in his day on banking and monetary problems, on this subject outranking even Ricardo.

In Chapter V entitled "The First Treasurer" Patten wrote as follows:

"Well, Henry," asked Wilberforce of Henry Thornton on the night of February 23, 1807, after the bill for the abolition of the slave trade had passed the House of Commons by 283 votes to 16, "what shall we abolish next?"

"The lottery, I think," Thornton gravely replied.

The reply was characteristic of the man. Even in the hour of triumph he was looking soberly to the future and planning another reform on which he had set his heart. For him life was a serious business and he wanted others to regard it with equal seriousness. . . .

There was certainly no lack of earnestness among these reformers, and their most hostile critics could never accuse them of levity. On the contrary, criticism charged them with showing a Puritanical strictness and simplicity of life. It is true that they had not only caught the new evangelical enthusiasm but had revived something of the old Puritanism. They lived strictly and denied themselves many ordinary pleasures. Without renouncing the comforts which most of them could easily afford, they set a measure to them, and,

as we shall see, Henry Thornton limited his personal expenditure in order to give away a large part of his income. Sunday was strictly observed at Clapham; daily family prayers were the usual order; and in other ways the appearance of worldliness was avoided. . . .

Yet the Clapham Puritanism was no stern and unlovely manifestation, and Thornton's religion had nothing forbidding about it. On the contrary, he disliked anything ungracious in religion, and in a frank moment confessed that some of the religious people he met in his father's home nearly put him off religion altogether. . . .

Thornton was a famous banker in his day and an authority on high finance. He supported Pitt's financial measures for the formation of the Sinking Fund; he was a leading member of the Bullion Committee of 1811; and he was a Governor of the Bank of England. He wrote a book on "The Nature and Effects of the Paper Credit of Great Britain," which was regarded as an important contribution to a difficult subject. [Page 68ff.]

Thornton's health throughout his maturity was "delicate." In 1815 at the age of 54 he died after a lingering illness.

To describe Henry Thornton as an economic thinker we begin by quoting Joseph A. Schumpeter in his *History of Economic Analysis* (Oxford University Press, New York, 1954) where in Chapter 7 entitled "Money, Credit and Cycles" he wrote (page 689):

. . . But Henry Thornton (1760-1815) must be saluted at once. He was a banker, M.P., philanthropist, and—which he himself and many who knew him would presumably have put first—a leading figure in the influential group of Evangelicals that was known as the Clapham Sect. His *Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (1802)* is an amazing performance. The product, according to Professor von Hayek's estimate, of work that extended over about six years during which the author's energy was largely absorbed by business and political pursuits, not faultless in detail and not fully matured, it anticipated in some points the analytic developments of a century to come. No other performance of the period will bear comparison with it, though several, among them Ricardo's, met with much greater success at the time as well as later. In part this was because the author put no emphasis at all upon his novel results—the book reads as if he himself had not been aware of their novelty. Perhaps he was not, though he paid an almost academic amount of attention to such predecessors as he knew. He was one of those men who see things clearly and who express with unassuming simplicity what they see.

To this Schumpeter adds the following footnote:

[*The Library of Economics reprint (1939) is prefaced by an essay by Professor von Hayek, the scholarship of which is surpassed only by its charm. The reader who misses it

deprives himself not only of much valuable information but of an exquisite pleasure.]

Professor Friedrich A. von Hayek edited Thornton's treatise, *An Enquiry Into the Nature and Effects of the Paper Credit of Great Britain* (Rinehart & Company, New York, 1939), and wrote an Introduction of 48 pages, justly praised by Schumpeter. This Introduction contains more data than appears in the chapter on Thornton by Patten. Von Hayek wrote:

It is quite impossible to make more than a mere mention in this sketch of the more important movements which the Clapham Sect initiated and in which Henry Thornton took a leading part. Their main achievement is, of course, the abolition of the slave trade, and from the beginning of the association of Thornton, and Wilberforce up till the passing of the Act of 1807, the greater part of their energies were devoted to this leading goal. If Wilberforce was the driving spirit, Thornton was the wise and practical counsellor on whom Wilberforce placed absolute reliance. . . . [Pages 21-22.]

It is recorded that till his marriage in 1796 Thornton had made it a rule to give away as charity six-sevenths of his income. His work at the Banking House does not appear to have taken up too much of his time. If we may trust his Diary, to attend there regularly from 11 a.m. to 3 p.m. seems to have been a good intention rarely achieved. And even so, we find occasionally entries as the following: "I did little yesterday at my Banking House except correcting a Sermon on Self Denial." [Pages 25-26.]

This Introduction cannot attempt to summarize the argument of the work or even to point out all its merits. It would take a great deal of space merely to mention all the points in respect to which Thornton's treatment constituted an important advance on earlier discussions, and it must suffice to indicate a few passages which deserve special attention. It may be true, as has often been asserted, that his exposition lacks system and in places is even obscure, but too much can be made of this defect. And there will be few readers who will not be impressed by the acumen and the balance of mind displayed throughout the exposition. [Page 46.]

Great as this achievement is, to many readers Thornton will appear to reach the height of his intellectual power in the penultimate chapter in which he proceeds to meet various objections, and in particular to refute the erroneous argument "that a proper limitation of bank notes may be sufficiently secured by attending merely to the nature of the security for which they are given." It is here that, in summarizing earlier points, he sometimes finds the happiest formulations; he also breaks entirely new ground in an attempt to elucidate the effects of a credit expansion in greater detail. He sees that the expansion of credit will in the first instance lead to the employment of "antecedently idle persons," but adds that as these are limited in number, the increased issue "will set to work labourers, of whom a part will be drawn from other, and perhaps, not less useful occupations." This leads him . . . to one of the earliest

expositions of what has become known as the doctrine of "forced saving." [Page 49.]

The discussion of the proper limitation of issues leads on to the second point of primary importance in this chapter, the discussion of the role of the rate of interest. The statutory limitation of the rate of interest which the Bank may charge has the effect, he says, that at times this rate will be much lower than the mercantile rate of profits, and will in consequence lead to an undesirable expansion of credit unless the Bank takes other measures to keep down the volume of credit. This is a remarkable anticipation of the distinction between the market rate and the "natural" or "equilibrium" rate of interest which since the work of Knut Wicksell has played such an important role in the discussions of these problems. With this idea, along with the idea of forced saving, Thornton was for the first time in possession of the two main elements which it was left for Wicksell, nearly a hundred years later, successfully to combine into one of the most promising contributions to the theory of credit and industrial fluctuations. [Pages 49-50.]

The points we have mentioned, though they are the most important, do not by any means exhaust Thornton's contributions to knowledge. They may, however, serve as an indication of the character of the work which put the discussion of monetary problems on a new plane. . . [Page 50.]

It may be doubted whether in the history of mankind the character of an evangelical Christian and an excellent economist have been embodied in one person more attractively than in the person of Henry Thornton. (Frederick Bastiat is probably the closest rival.)

Ludwig von Mises

On matters pertaining to money, credit and business cycles, which we are currently discussing, we shall be following the thought of Ludwig von Mises for two reasons. In the first place, the policies which Mises favors are the *only* policies which are reconcilable with the Decalogue, specifically the commandments against theft and fraud; other policies conflict with that moral law. In the second place, the policies which Mises favors are the *only* policies which are logically consistent.

Mises's ideas are an advance over the thinking of Henry Thornton. But it is almost necessary to *contrast* the thinking of the two men, rather than to indicate there was easy progress from Thornton to Mises.

Thornton, although one of the greatest thinkers on credit and the business cycle, nevertheless did not meet the problem of fiat

credit "head on." He did not *fully* understand the problem, and never took a comprehensive logical stand against all forms of fiat credit.

Mises makes an economic rather than a *moral* approach to fiat credit. He is a rationalist in the sense that he reasons persistently to a logical conclusion. The conclusion of his reasoning is this: *that the consequences of ALL fiat credit, no matter how small the quantity granted or the form, is ALWAYS bad.* There is no escape from the undesirable consequences.

In *FIRST PRINCIPLES* we accept, as authoritarian, the commandments in the Mosaic Law, which forbid theft and fraud. We are therefore against fiat credit, because *all fiat credit is theft and fraud.* We follow Moses in his warning statement, "Your sins will find you out." The reason why Moses was right about that is because the ethical laws in the Mosaic Decalogue are based on cause and effect, on the nature of things, on the character of creation, on phenomena traceable by the human mind by means of the laws of logic.

On questions of money, credit and the business cycle we follow Moses on (so-called) moral grounds, and Mises on economic grounds. The reason why these two authorities agree is because what one teaches on moral grounds and the other on economic grounds are essentially one and the same thing.

We take the following from the preface of Mary Sennholz's *On Freedom and Free Enterprise* (D. Van Nostrand Co., Inc., Princeton, New Jersey, 1956), a book which is a *festschrift* containing nineteen contributions in honor of Dr. Mises on the fiftieth anniversary of his receiving a doctor's degree from the University of Vienna.

Ludwig von Mises was born on September 29, 1881, in Lemberg in what was then Austria-Hungary. . . . From 1892 to 1900 he attended the "Akademische Gymnasium" in Vienna to prepare himself for the university. Upon graduation he studied law and economics at the University of Vienna. On February 20, 1906, the University conferred upon him the degree of Doctor of Law and Social Sciences, or, as the traditional Latin title goes, of Both Laws, i.e., of Roman and Canon Laws. . . .

After a short occupation with the administration of justice, his increasing interest in social and economic matters induced him to accept the position of economic adviser of the Austrian Chamber of Commerce. For almost thirty

years he endeavored to stem the tide of interventionism and socialism from this post, until Austria became a part of the German Reich. And for more than two decades he taught the economics of free enterprise at the University of Vienna . . .

In Austria he was fighting a losing battle. In spite of his prodigious labor and relentless counterattacks, the cause of freedom and free enterprise failed to hold its ground. In 1934 he left for Geneva to occupy a chair at the Graduate Institute of International Studies. In the Swiss atmosphere of peace and serenity he observed the rise of nationalist-socialist Germany and the outbreak of World War II. It is here that Professor von Mises wrote his magnum opus, *Nationalökonomie, Theorie des Handelns und Wirtschaftens*, which is a comprehensive treatise on economics. Its revised American edition is known under the title *Human Action*. . . .

In 1940 Ludwig von Mises immigrated to the United States where he had spent some time twice before. In 1926 he was a visiting professor sponsored by the Laura Spellman Rockefeller Foundation, and in 1931 he attended the Congress of the International Chamber of Commerce in Washington, D. C. Now he came to stay and make America his country of choice. . . . Since 1945 he has been lecturing as a visiting professor of economics at the Graduate School of Business Administration of New York University. (Pages ix-xi.)

We also copy the following from what is said about Dr. Mises on the "dust cover" of his book, *Planning For Freedom* (Libertarian Press, South Holland, Illinois, 1952):

. . . Professor Ludwig von Mises is one of the foremost economists of our age. Inspired in his early career by the work of his teachers, the great Austrian economists Carl Menger and Böhm-Bawerk, he has in a series of scholarly investigations systematically analyzed every important economic problem, critically exploded inveterate errors and substituted sound ideas for discarded fallacies. . . .

In his studies on money and credit Dr. Mises has unmasked the illusiveness of all arguments advanced in favor of a policy of inflation and credit expansion. He has shown how the boom that an "easy money" policy artificially produces, must inevitably lead to a slump. He has demonstrated that the almost regular recurrence of periods of economic depression is not caused by any shortcomings inherent in the very nature of the market economy, the capitalist system, but, on the contrary, the necessary effect of sometimes well-intentioned, but always ill-advised attempts to tamper with the operation of the market. The advocates of inflation and credit expansion have in vain tried to discredit this doctrine, the so-called Austrian theory of the trade cycle. Events — the collapse of the German currency in 1923, the great depression of 1929 and the following years, the troubles brought about by the present American inflation — have clearly proved its correctness.

No less important than Dr. Mises' contributions to the

problems of money, capital and credit are those of his writings that deal with the effects of socialism, communism, planning and all kinds of government interference with the market, e.g., price and wage control.

An economist cannot satisfy himself with pure analysis and scientific interpretation of reality. His teachings imply in themselves an attack upon the political parties whose programs they confute. From the very beginnings of his work as economist Dr. Mises vigorously opposed those tenets and creeds whose application was bound to destroy Europe's civilization and prosperity. He forcibly fought the German Historical School, the forerunners of Hitler's National Socialism, and the Marxians, the harbingers of the most ruthless of all dictatorships the world has even seen. And he fights today in America the ascendancy of the same mentality of all-round regimentation.

It has been said that people do not learn either from historical experience or from theories. It is a sad fact that in most of the American universities the students are today indoctrinated with the counterfeit philosophy that has ruined Europe. Very old fallacies, a hundred times refuted, are flamboyantly advertised under the deceptive label "new economics." Veblenians, Marxians and Keynesians still dominate the scene with their preposterous glorification of "social" control of business, planning, and deficit spending. But their bigoted dogmatism is beginning to lose its hold upon the minds of the rising generation. Says Professor Hayek, the most eminent among the numerous former students of Mises: "Even some of Mises' own pupils were often inclined to consider as *exaggerated* the unfaltering tenacity with which he pursued his reasoning to its utmost conclusion; but the apparent pessimism which he habitually displayed in his judgment of the economic consequences of the policies of his time proved right over and over again, and eventually an ever widening circle came to appreciate the fundamental importance of his writings, which ran counter to the main stream of contemporary thought in nearly every respect."

It is generally recognized that Dr. Ludwig von Mises is today outstanding among those social scientists who advocate economic freedom as the indispensable basis of all other freedoms and valiantly raise their voice against all varieties of totalitarian slavery.

On questions of money and credit, booms and depressions, a long series of ideas come finally to complete and correct formulation through Mises. His great predecessors include men as Hume, Thornton and Wickseil. He has, however, utilized ideas from very diverse sources as, for example, ideas from John Law, whom we shall discuss later. But it is only in Mises that there is a complete and definitive break with a whole mass of fallacies about money, credit, inflation and the business cycle. And unless a man condemns fiat credit as unqualifiedly as Mises does, it is not correct to declare that that man adheres to the Ten Commandments.

Protestantism's Social Gospel As A Substitute Religious Term For Socialism

The National Council of Churches, the United State's segment of the World Council of Churches, appears to be primarily interested in the Social Gospel. The following are extracts from an article by Vernon W. Patterson in the April 22, 1959 issue of *The Southern Presbyterian Journal*, under the title, "The National Council's 'Social Gospel.'"

The National Council's "Social Gospel"

Historically the name "social gospel" and its teachings were promulgated by Dr. Walter Rauschenbusch of Colgate Theological Seminary, later Colgate-Rochester Divinity School, at the time the Federal Council was coming into being. The National Federation of Churches had been organized in 1900 largely through the leadership of Harry F. Ward, professor for 23 years in Union Theological Seminary, New York, . . . [well-known] for his communistic teachings and activities. The Federal Council was organized in 1908. Dr. Rauschenbusch's "Social Gospel" became its guiding principle from its beginning.

Dr. Rauschenbusch had written in his "Christianity and the Social Crisis" in 1906 the following:

"It would seem, therefore, that one of the greatest services that Christianity could render to humanity in the throes of the present transition would be to aid those social forces which are working for the increase of communism. The church should help public opinion to understand clearly the difference between the moral qualities of the competitive and communistic principle, and enlist religious enthusiasm on behalf of that which is essentially Christian."

Bishop G. Bromley Oxnam in his "personalities in Social Reform," published in 1950, says that this book by Rauschenbusch "changed the thinking of American Christians."

. . . [Rauschenbusch] sees society [as] divided into two fundamental classes, "the one born to toil," the other developed by leisure "with its combination of leisure and wealth . . . conditioned on the power of taking tribute from the labor of many." He decries "the desire for private property" as "antagonistic to public welfare," and advocates "the substitution of cooperation for predatory methods in industry." "The cross," he says, "is a law of social progress," and the goal he sets is a "universal human fraternity," "the perfect social order," "the Kingdom of God."

In his book, "Theology for the Social Gospel," in referring to this "Kingdom of God," he says,

"This involves the redemption of society from private property in the natural resources of the

earth, and from any condition in industry which makes monopoly profits possible."

Also in this book, he says,

"If we can trust the Bible, God is against capitalism, its methods, spirit, and results" (p. 184).

These teachings are simply Marxism dressed in Christian clothes. They are not the gospel of Christ according to the Scriptures. They are "another gospel." What Karl Marx calls "the solidarity of the race" becomes "the universal brotherhood of man"; his "economic determinism" becomes "social change" and "social planning and control"; and his "classless society" becomes "the Kingdom of God." This "Kingdom of God" — the term popularized by Rauschenbusch — is clearly not the Kingdom taught in the Scriptures, but is an *international, socialistic state*.

The presidents and . . . leaders of the Federal Council, and now of the larger National Council, formed in 1950, have followed and developed these teachings consistently. Volumes could be written, giving quotations from their books and writings, in which they advocate these teachings . . .

Dr. Edwin T. Dahlberg, President of the National Council (1959), was formerly secretary to Dr. Walter Rauschenbusch, and apparently was greatly influenced by him.

* * *

The many publications of the former Federal Council and of the present National Council abundantly confirm this. The National Council has published a "Summary of General Assembly and General Board Action, November 29, 1950 through November 30, 1957." While an exact analysis of these actions is difficult, because undoubtedly there is considerable overlapping of material in their contents, still the following gives an approximate idea of the nature of these actions: 28 were on political activities, 10 on social and moral issues, 9 on labor relationships, 43 on international relations, 7 on economic matters, 18 on racial relations, 12 on religious and spiritual matters, and 10 in the nature of greetings. . . .

. . . leaders of the Federal and National Councils have fought the defense programs of the United States through the years, even when war and destruction were threatening; they have advocated wide-open immigration and unrestricted interchange of travel and trade between America and communist countries; they have aligned themselves with radical labor movements and leaders; they have greatly influenced the advance of socialism and its accompanying inflation; they have sought to curb and abolish the Committee on Un-American Activities; they have created class and racial strife and discord; they have opposed the free enterprise system and advocated collectivism, and have in many ways aided the cause of communism.

The quotations tell their own story. It is difficult to believe that where the Protestant churches preach the social gospel they are teaching anything else than socialism in one of its many variations.

In the first quotation in the foregoing from Rauschenbusch "competition" is designated as the principle contrary to "communism," and communism is indicated to be the "essentially Christian" principle for organizing society. Rauschenbusch was obviously a sentimentalist rather than a rationalist, and apparently did his thinking on the basis of his emotions and without understanding of the "economic order." Competition when harnessed to freedom of buyer and seller has two characteristics — every nerve is strained to give *service* to the fellowman, *according as he chooses*; in short, *competition is rivalry in service to fellowmen* who are pursuing their legitimate self-interests. (See earlier issues of this publication in many places for complete and frequent analyses of this idea.) Now, this "falling over each other" in eagerness to serve the fellowman as *he* decides (not as the producer decides) is clearly indicated by Rauschenbusch as being not "essentially Christian."

What then, according to Rauschenbusch, is "brotherly love"? *Communism*. The principle of brotherly love, in this case (that is, in communism), is a combination of humiliating *charity* and violent *coercion*. In this situation, *charity* is the antonym for *service*; and *coercion* is the antonym for *freedom*. Rauschenbusch essentially taught that a society based on *alms* and *coercion* was Christian, and a society based on *service* and *freedom* was un-Christian. This is the social gospel! Rauschenbusch, implying that his foundation was the Bible, wrote: "If we can trust the Bible, God is against capitalism, its methods, spirit and results." Suppose we remove the "if" clause, and leave the proposition stand unqualified: "God is against capitalism, its methods, spirit and results." Here is a good proposition for debate. We shall be glad to take the negative in a public debate with anyone who wishes to advocate the foregoing proposition. Or we shall be glad to take the affirmative on the proposition, "God is against communism, its methods, spirit and results." We shall be glad to conduct the debate solely on Scripture, solely on logic, or on both Scripture and logic.

(The evidence, we believe, is conclusive that Rauschenbusch and those who think similarly were (are) quite uninformed on the subject of economics. They substitute the ideals of a secondary science, sociology, for the realities of a primary science, economics. Consider Ricardo's Law of Association: to our knowledge there

has never been in any writing of any social gospeller a reference to it with obvious full understanding what that Law is. But as economic law goes — or as any law of human association of any kind goes — Ricardo's Law is as fundamental and as illuminating as the law of gravity in physics. (See Volume IV, Numbers 7, 8 and 9 of this publication.) If human society is to be organized without knowledge of or conformity to Ricardo's Law of Association, which is fundamental for any understanding of an economic order, then it is as reasonable to say that the science of astronomy should be based on Ptolemaic ideas.)

But our prime purpose in quoting the foregoing is to refer to the fourth paragraph in the quotation, where we read: "Rauschenbusch sees society [as] divided into two fundamental classes

'the one born to toil,'

the other developed by leisure

'with its combination of leisure and wealth . . . conditioned on the power of taking tribute from the labor of many.'"

Rauschenbusch obviously accepted Marx's theory of the explanation of the *income* of capitalists — namely, that it is based on *exploitation* of the laboring man. That is socialism's explanation of the income of the capitalist whether it appears in the form of interest on money, rent on land, or profits in business. That income is declared by Marx to be something filched from the worker. Rauschenbusch has apparently been imposed upon by Marx.

It is true that the explanations given by capitalists justifying interest, rent and profits have been vulnerable, and that the socialists have pretty well picked those pro-capitalism arguments apart and shown them to be fallacious; for example, a common argument is that capital gets a return *because* it is *productive*. But that argument is erroneous. It is as erroneous as the socialist argument that capital gets a return *because* it *exploits the laborer*. The *basis* for the return of income to a capitalist is neither of these.

Again if anyone wishes to debate the issue, it can be formulated as follows: "Capital obtains a return because it has the *power* of taking *tribute* from the labor of many." We shall be happy to take the negative in such a debate.

Theologians have neglected economics — a rational, realistic science, soberly analyzing the reality of things; and have instead

turned to sociology — a visionary, idealistic “science,” unhinged from reality. The social gospel is equivalent to *obscurantism in economics*.

Böhm-Bawerk, the famous Austrian economist, wrote an essay, “*Macht oder Economisch Gesetz*,” which can be translated *Power versus Economic Law*. But that title, to be fully appreciated, would really need a sub-title to the effect: “Can any human power, individual or collective, overwhelm and annul economic law?” Böhm-Bawerk answers that question in the negative. No human being nor any government will be able to “abolish” a return on capital, not even by the torture rack, imprisonment nor the death of millions. The return on capital is an economic law, based on the *nature of things*, on creation. The equivalent of interest will exist inescapably in any socialist society — under cover, if suppressed temporarily by power; and openly, in an idealistic, noncoercive socialist society. In regard to the latter, see Böhm-Bawerk’s argument in Chapter XII in Volume I of his three-volume work, *Capital and Interest*. Here he poses the problem of five socialists building an engine, and inescapably in the interest of justice allowing a return which is the reward of capitalism! Rauschenbusch was an obscurantist in economics when he referred to “the power of taking tribute from the labor of many” and “predatory methods in industry.”

(It should be added that Rauschenbusch in one of the foregoing quotations implies that communism is a system of “cooperation,” which he contrasts to the “predatory methods” of capitalism. Rauschenbusch’s use of the term *cooperation* in this connection is pure question-begging, and false; communism as a system is alms and/or coercion; it can never be *cooperation*.)

Decisions Of The National Council Of Churches Are Reported As Unanimous Unless The Negative Vote Was More Than 25%

The following is an extract from an article in the April 22, 1959 *The Southern Presbyterian Journal*, by Horace H. Hull:

The National Council’s “Group Dynamics”

The New York TIMES for November 21, 1958, reported in bold-face headlines that “LEADERS OF AMERICAN PROTESTANTISM VOTED UNANIMOUSLY TODAY IN FAVOR OF U.S. RECOGNITION OF RED CHINA AND

ITS ADMISSION TO THE U.N." Then followed a news story on the four day World Order Study Conference of the National Council of Churches at Cleveland, Ohio. The unanimous vote had been taken at the end of the conference.

Ten days later the same paper reported: "CHURCH LEADERS SHUN CHINA STAND." The news item then went on to report that the General Board of the N.C.C.C. had announced that the World Order Study Conference at Cleveland while "it had spoken with a mighty voice had spoken only for itself." I should explain that the General Board is the highest administrative and policy making body of the National Council. It had sponsored and authorized the Cleveland conference. Yet the Cleveland conference which "unanimously" had voted to recognize Communist China "spoke for itself."

This is as patently absurd as telling a man, "My mule did not kick you; it was only his left hind leg which acts for itself." The National Council has employed this . . . [method] before. Some subdivision will hold a conference which was authorized or sponsored by the National Council. It will issue a highly questionable or provocative statement on some social, economic, or political question having absolutely nothing to do with religion, ethics or morals, as a trial balloon. If there is no great protest then the N.C.C.C. advertises it as the "mighty voice of 38 million Protestants." If, however, as is often the case, there is widespread objection and criticism, then the National Council will blandly issue its "My mule did not kick you" statement.

On page 5 of . . . [its] report we learn that "The Fifth World Order Study Conference was planned by the National Council of Churches with the understanding that it was to be followed with a nationwide educational effort?" (Emphasis added.) There were two proposals to amend the message with respect to its recognition of Red China section but they "were voted down with less than 25% in their favor."

The Message to the Churches opens with a strictly neutralist position between the communist and non-communist nations. "Revolutionary forces have created new nations featuring a passionate and fractious nationalism; strong and all too justified resentments against the western world — resentment now compounded by the deterioration in race relations in our country" . . . etc. The report does not amplify what the United States has done to earn such "all too justified resentment" except possibly our own "deteriorating race relations."

Next comes the usual Communist and liberal bugaboo of world-wide nuclear annihilation unless the United States and Soviet Russia sit down and become friends — on Communist terms, needless to add. The Conference deplored "the tendency to discredit the motives and proposals for disarmament when made by anyone but ourselves" — in more open and honest terminology "we must trust the Communists."

The National Council's plea for the abolition of universal military training was renewed. Churchmen in this country also need to re-assess their attitudes towards

countries "having Communist parties in control of government." The Communist press uses the same language in urging the same appeasement. Now get this — "In Russia and China communist philosophy has endeavored to assimilate the deep traditional sense of national destiny."

Christians are urged to make "stronger efforts to break through the present stalemate and to find ways of living with the communist nations." The Communist press urges the same. We are then lectured that "communist nations have their own legitimate interests and their own reasonable fears. We should avoid the posture of general hostility to them and cease the practice of continual moral lectures to them by our leaders." . . .

The Communists are not expected to "formally renounce what we consider to be their errors." So it is up to us to practice "self-criticism" and find ways and means of accommodating our way of life to co-existence with world Communism. This requires "tireless negotiations with them and imaginative programs of communications, cultural exchange and personal contacts." This . . . appeasement . . . of . . . Communism which openly boasts that it intends to bury us, could only have been written by a deeply buried secret Communist or a craven and spiritually empty fool. Indeed, the Communist press gleefully gave front page coverage to this incredible prescription for surrender by the National Council of Churches. . . .

Yet the National Council's General Board, while . . . "receiving" the World Order Study Conference's statement, . . . inserted the claim that the conference "spoke with a mighty voice." To what mighty voice do they refer? It could be no other than the voice of 38 million Protestants that they claim (erroneously) to represent.

Even more reprehensible was the . . . claim that the vote had been "unanimous." That is what the newspapers said and that naturally was what millions of Americans assumed to be a fact. . . .

Was it unanimous? No, it wasn't. A number of delegates present and voting later claimed they had voted *against* the recognition of Red China statement and were quite indignant about the "unanimous vote" press release. They had learned painfully and at first hand what "group dynamics" meant as interpreted and used by the N.C.C.C. The ultra-liberal N.C.C.C. has a very illiberal little sleeper clause in its conference rules that minority dissent is registered and made public *only* when it exceeds 25 per cent of the delegates entitled to vote. In other words, if there were 500 delegates voting on the question of recognizing Red China and 124 in opposition, the result nevertheless would be announced as "unanimous." . . .

. . . Secretary of State Dulles, who had spent years of his life building the Federal Council of Churches and in helping found the World Council of Churches, was reported as having privately admitted to a friend that it was "the most devastating experience of my life!"

This . . . incredible pro-Communist propaganda stunt of the National Council naturally aroused nationwide protest from religious leaders and laymen alike. . . .

An Example Of Questions For Which Bureaucrats Spend Tax Money

The following is taken from the *Wall Street Journal*, April 24, 1959. It is an example of degeneration of government under the influence of statisticians and pressure groups. Bureaucracy is a disease that grows and grows unless it is strongly resisted.

How Many Hog Pens Have Running Water? Agricultural Census To Provide The Answer

WASHINGTON. Uncle Sam doesn't care any more how many mules a farmer owns — not to the point of asking him, anyway.

But the Government does intend to find out how much a farmer owes his veterinarian, and whether a new chicken house has a wooden or metal roof, and whether a farmer's hog pen has running water. And it expects straight answers to these suspenseful questions: How much butter is churned by the womenfolk on North Carolina farms? What's the value of cassava output in the Samoan Islands? How many farms have telephones? Home freezers? Electric milk coolers?

All this and much, much more will be sought, and presumably discovered, in the next year and a half during the Federal Government's seventeenth census of agriculture. This exhaustive survey of the nation's rural scene — conducted once every five years — will start next fall. It will cover every state, plus Puerto Rico, American Samoa, Guam and the Virgin Islands. It will be run separately from the 1960 count of the whole U.S. population that starts next April, although farmers will be included in that one, too.

* * *

Most of the suggested questions come from the Agriculture Department's battalion of farm specialists, all in-

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terested in getting data for some special project. "There's an awful lot of competition for space on the questionnaire," says Earl Houseman, the Agriculture Department's liaison man on census matters.

* * *

The entire farm census will cost around \$24 million, compared with an estimated \$118 million needed for the national population census. It will take until September, 1961, to publish the collected findings in some 54 separate volumes totaling 10,000 pages.

The British government beginning with the Labor Government after World War II has also been bureaucratic in character. The following is a news item in the *El Paso Times*:

Britons Coached On Shoveling

LONDON. Britain's nationalized Coal Board solemnly told Britons Sunday how to shovel their own coal. A 46-page manual said shoveling coal is a snap. This is how it is done:

Examine the shovel. Approach the coal. Grasp the shovel. Make a forward stroke. Raise the load. Then don't just stand there—do something. "Swing the shovel in the direction in which the load is to be thrown," the board pamphlet said.

Some people, misinterpreting Romans 13:1-7, believe that everything a government does must be patiently tolerated, because the "powers that be are ordained of God" and that "whosoever . . . resisteth the power . . . shall receive damnation to themselves." Maybe God is speaking to Englishmen through the British government's Coal Board, but we happen to lack the ability to believe it. And we are confident that anyone failing to shovel coal as the Coal Board directs will not "receive damnation unto himself" on *that* account.

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