REASONABLE VALUE

by

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Reasonable Value

A Theory of Volitional Economics

Chapter I

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Method

1. Metaphysics

Economic theory should be looked upon as the work of inventing mental tools to be used in research and action. A history of economic thought is not so much a matter of curiosity or culture as it is an inquiry into the meanings which economists gave to words and events, the materials out of which they contrived those meanings, and the uses to which they put them in meeting current issues and constructing or justifying programs of action. Out of such historical review one is able to discover changes in meanings, owing to changes in economic conditions and advances in general knowledge, and to construct or reconstruct meanings that may be used in modern economic investigations and plans of action.

If we attempt to reduce the subject matter of Political Economy to its simplest mental tools, found or implied in the writings of economists, these may be stated as the five ideas, Scarcity, Efficiency, Violence, Repetition, and Futurity. Each of these ideas has its own history in the evolution of economic thinking. Each is derived from common sense and other sciences, which serve therefore as materials. Each has been brought over piece-meal to the attention of economists, although, when used to explain events, they are found to be so interlocked in their

dependence on each other that they cannot be separated in fact. The dimensions and interactions which they signify can, however, be measured directly or indirectly by modern statistical methods.

The ultimate fact of observation that man is a finite being whose powers are inadequate to satisfy all his longings, is the universal presupposition of philosophy, but its special application as a social relation brought in to explain or advocate an economic or political policy begins only with Benjamin Franklin in 1751. The idea was extended to ethics and jurisprudence by Hume in 1740 and by Malthus in 1798, and finally extended to all living creatures by Darwin in 1859. Hume's and Franklin's expositions may be given the name, Proprietary Scarcity, Darwin's and Malthus' the name Biological Scarcity, and the further extension of the principle to what may be named Psychological Scarcity was made independently by Gossen in 1854, Jevons in 1862, Menger in 1871, and Walras in 1873. The principle of scarcity had always been recognized in the theories of supply, demand and price, but the idea itself had not been independently formulated in psychological terms prior to Gossen, and indeed was not given its universal formula for economics until the simultaneous equations of Walras and Cassel in 1884 and 1900.

The principle of Futurity, likewise, is a universal fact of living creatures, so familiar, in the case of human beings, that it is always implied if not expressed, but it was not given a measurable interaction upon the other dimensions of economic science until the work of Böhm-Bawerk in 1886, Cassel in 1903, and Fisher in 1906, although the discounting of the future was provided

for by Bentham and Jevons. It was extended under the name of entelechy to all living creatures by Driesch in 1904. [1]

It follows that, if man's present powers are limited and his longings unlimited, the principle of Efficiency or Productivity becomes interwoven with scarcity and futurity, and this idea becomes the central one in economic science with John Locke in 1689 and Adam Smith in 1776, personified under the name, Labor. Locke's lead was followed by Ricardo in 1817, and by Marx and Proudhon in the decade of 1840. But human efficiency was not clearly separated from divine beneficence, or the productivity of nature's forces, or analogies to physical sciences, until the theoretical work of Veblen in 1900 and the engineering work of Frederick Taylor in 1890. It has always been, and is now, a central idea in practical affairs and economic theory, interlocked with the other dimensions, scarcity and futurity.

The idea of Repetition was always implied in the ideas of Custom, Habit, Standard of Living, but was never clearly separated from ideas of natural law, or the idealism of ethics or subjective psychology, until the incoming of the behavioristic sciences of psychology with their emphasis on stimuli and response, and the incoming of statistical methods for measuring the dimensions of turnover, velocity, the rate of change. It was John Locke in 1689 and Jeremy Bentham in 1776, who eliminated custom but assumed repetition, the former by substituting a law of Nature and God, the latter by substituting the recurring pleasures and pains of individuals. But with Bentham and his followers there was no avowed principle of Custom intervening between the individual and

1) Driesch, Hans; Gifford Lectures (1904, 1905)

that organized monopoly of violence which we name Sovereignty. Hence economic theory was worked out with the two ideas, the Individual and the State. Bentham's Fragment on Government, in 1776, was provoked by Blackstone's Commentary on the Laws of England in 1769, and henceforth jurisprudence, like economics, was separated in two directions, that of John Austin in 1830, who followed Bentham with only the two explicit ideas, individuals and sovereigns, and that of the English and American courts which followed Blackstone with a personified repetition and expectation which they called custom, intervening between the individual and the State.

In England a bold attempt was made by McLeod in 1860 to shift economic theory completely from the ideas of physical things to the idea of legal rights created by Sovereignty, in the meaning of the common law derived from Custom, but his attempt succeeded only in part in the field of banking and credit, since he treated these legal rights, which are only legalized expectations, on the false analogy of physical commodities. In Germany, Schmoller in 1873 represents the high point of the historical school in his presentation of the claims of Custom, but he did not clearly separate it from subjective ethics. It was not until Webb's Industrial Democracy in 1900 and Veblen's Instinct of Workmanship in 1910 that the idea of custom, in the realm of labor and productivity, was clearly separated from subjective ethics, and not until the rise of extra-judicial administrative commissions and arbitration boards of the past thirty years in America, dealing with the practices of business and labor, that the research material was at hand for the study of Custom as one of the several

factors in economic science. A flood of monographic work dealing with repetitive practices has appeared during this time, so that economic science seems to be resolving itself into the two types of phenomena, Practices and Prices. The presuppositions of these repetitive practices, conveniently summarized as Custom, have also obtained research material from the flood of monographs arising out of the so-called behavioristic psychology.

While Custom, in the quantitative sense, is the mere repetition of transactions, yet it is more than repetition because it functions with futurity and collective action. In the physical sciences the idea of repetition is enough to create the notion of a law of nature, but in human sciences it is the Futurity of Repetition that constitutes the important human relations, Security and Compulsion. For this reason Custom is more than repetition, in that it carries a coercive effect upon the practices of individuals, requiring them to conform in the future to what was familiar in the past, and is thus an expression, not of a law of nature, but a law of human nature. Thus custom is the <u>requirement</u> of repetition, - and it is this aspect that has always associated custom with the idea of what <u>ought</u> to be, in the field of rights, duties, ethics, law, and conscience. Custom is a dimension that can be measured by modern statistical devices of repetition, duplication, variability, lag, velocity, etc., but it requires mental analysis to construct the meaning of a coercive power residing in expected repetitions and dominating present behavior.

This meaning arises from the functioning of Time. Time, of course, is not a thing -- it is an Idea whose meaning is repetition, motion, variability. Doubtless the most important scientific

change that has occurred during the past forty years, not only in economics but in all sciences, is the incorporation of time in its various dimensions of repetition, duration, lapse, change, relativity, etc., in the primary concepts with which the sciences deal. In order to portray the meaning of time a real revolution is occurring in the methodology of all the sciences, including the mental tool of science, mathematics. It is found that Motion requires a fourth dimension to be incorporated in the elementary concepts themselves, instead of the older dualisim of static bodies with dynamics somehow added from outside. In physics this four-dimensional idea reached its mathematical formula in the equations of Lorenz and Einstein, and its broad generalization, in such shape as to be applicable to mechanical phenomena, finds expression in Whitehead's two ideas, Event and Organic Mechanism,[1] which take the place of the older "atoms," "molecules," "objects" and their action and reaction. In biology the corresponding ideas are metabolism and organism, while in economics they are Transactions and Going Concerns.[2]

But economics contains a dimension of Time not contained in Physics, namely Future Time. Transactions and going concerns are dominated by expectations, and a going concern is the collective expectation of repetition, duplication and veriability of transactions. As soon as this futurity disappears the concern stops going.

If, on the foregoing basis, we summarize the history of economic theory with reference to what was taken to be the ultimate unit of investigation, we find that the units were first

1) Whitehead, A.N. Science of the Modern World. (1924)
2) See Commons, Legal Foundations of Capitalism (1924)

commodities and individuals, then the feelings of individuals respecting commodities, then the present and expected transactions between individuals. Commodities were the physical output of labor for purposes of physical exchange, and these were the ultimate units for Locke, Smith, Ricardo, Marx and Proudhon, for which reason we designate them Physical Economists, whose work terminates in the idea of efficiency. Next, feelings are the subjective side of commodities and these became the ultimate units for Bentham, Jevons, Menger, Böhm-Bawerk and their followers, the school known as Psychological Economists, whose work terminates in the ideas of scarcity and futurity. Finally, transactions are the modern substitute for the older physical idea of exchange of commodities, and, in their three-fold aspect of managerial transactions, bargaining transactions and judicial transactions, they are the behavioristic units of investigation, modified in their dimensions by the five variable dimensions, scarcity, futurity, efficiency, sovereignty and custom.

Thus the historical movement of economic thought, from one point of view, is the history of a change in the subject matter of economics from commodities, to feelings, then to transactions; or, more broadly, a changd from a science dealing primarily with the relations of man to nature into a science dealing primarily with the relations of man to man.

From a related point of view, this historical movement is a change from a science whose unit is the individual to a science whose unit is a transaction. Since, however, an expected repetition of transactions is a going concern, the transition is one from individuals in a "state of nature" to individuals conceived

as occupying positions, membership, citizenship, or jobs, which are names for participation in the repeated transactions of going concerns. Here the historical movement requires us to go back to John Locke, in 1689, who formulated the idea of natural rights to property and liberty derived from labor, as the foundation of both a theory of economic value and a theory of political sovereignty. Law and economics were with him inseparable, and labor was their common ground. But the modern idea of a going concern, developed in the practices of business and the decisions of American courts, restores John Locke's union of economics and law, not upon his personification of labor but upon that interdependence of expected managerial, bargaining and judicial transactions which constitutes the changing unity of a going concern.

It is this idea of going concerns, now well established in the practices of business and labor as well as in the decisions of courts, that makes possible the idea of an interdependent unification, not in a single individual, but in a single process of many individuals, of the five elements previously mentioned, namely, scarcity, futurity, efficiency, violence and repetition. These become primary interdependent factors which must be taken into account in any complete analysis of transactions and going concerns, since a quantitative change in the dimensions of a transaction or going concern, caused by a change in any one of them, is accompanied, preceded or followed by quantitative changes in one or all of the others.

A consideration of the way in which the idea of Time has entered into this historical development of economic theorizing reveals, as above suggested, the important distinction between the sciences of life and the physical sciences. In the physical

sciences the subject matter of investigation takes no account of future time, but, in the human animal, especially, past, present and future are memory, experience, expectation, wish, hope, fear. Hence our historical review indicates a movement from the physical economists whose commodities were created in the past, to the psychological economists whose feelings occur in the present, then to the volitional economists whose present transactions and going concerns are dominated by the expectations of the immediate and remote future. Of course, futurity was always implied, but the mental tools and mathematical devices for separating it out and measuring it as an economic dimension have only recently been in process of construction.

A similar transition in ideas of time has occurred in the regions of philosophy, psychology, biology and jurisprudence, from the period when universal reason or divine beneficence was pictured as having laid down laws or commands in the past to be obeyed in the present, to the modern pragmatic philosophy, anticipated by Hume and formulated by Peirce, which looks to future consequences for the guide to repetition of behavior in the present. It is this introduction of what is so plainly a set of immaterial imaginings of the future that requires the distinction to be made between what may accurately be named Metaphysics and what may be distinguished as Trans-physics, Trans-biology, or Personification.

Human beings do not act upon perfect knowledge of the world, but upon the Meanings and Values for the future which they attribute to what they experience through the five senses in the present. The color red is supposed to consist of some 400 trillion vibrations per second and the color violet of some 760 trillion per second.

Hence the color red is meta-physical in the literal sense of the term, non-physical. We see red, but that is only the Meaning which we give to certain repetitions in the world's mechanism, which are not red at all. Red is our expectation of something that will happen, based on experience, repetition, memory, and our interest in the happening. It is the meaning we give to 400 trillion vibrations per second. And so with every object of nature, of human nature, and our own internal organism. Insofar as we act on experience, memory and expectation, we do so as metaphysicians. Our knowledge is only the meaning which we give to nature's supposed vibrations and this meaning is the intellectual side of what, on the emotional side, is value, and on the volitional side is choosing. From this point of view economic science is and always has been meta-physical, in the literal sense of the term, quite the same as all science is metaphysical. The difference, however, from the physical sciences is that the subject-matter of economics, human beings, is itself metaphysical as well as physical, whereas the subject matter of the physical sciences is believed to be solely physical.

We indicate this metaphysical quality of the subject matter of economics by the abstract term, Willingness, intending thereby to construct a mental tool that shall include the relation of futurity as a dimension operating in economic behavior. The term is a symptom of metaphysics in the same sense that electricity, or gravity, or energy is metaphysical, including, however, futurity as a dimension to be measured, which they do not include. Willingness is not a substance, a soul, or spirit, any more than electricity or gravity or energy is a substance. It is a mode of motion -- transactions and going concerns, -- whose meaning cannot

be grasped nor its dimensions measured without including futurity. Willingness indicates a mode of motion determined by the meanings given to words, ideas and events, in view of the happenings expected; a mode of motion that is determined by the values, which are the feelings of relative importance excited by these immediately or remotely expected happenings; and the motion is itself a repeated choosing between alternatives in view of these meanings and values. The word willingness is thus a sign given to what we mean by the threefold activity of meaning, valuing and choosing.

The metaphysics here involved is to be distinguished from that other, the incorrect meaning of metaphysics, which is more accurately to be named trans-physics, trans-biology, or personification, in that it transfers physical, organic or personified motions into transactions and going concerns. This false meaning of metaphysics we shall indicate by such verbs as hypostatizing, reifying, "thingifying", vivifying, personifying, eternalizing, and such nouns as animism, materialism, or false analogy. These may be condensed in the three terms, mechanism, organism, and personification, since they consist in transferring to economics the ideas properly employed in physics, physiology or an individual will. We shall find the history of economic theory filled with subtle and overt meanings of mechanism, organism, and personality, which we conceive can be avoided by substituting the ideas, going concerns and transactions. Going concerns and transactions are to economics what Whitehead's "organic mechanism", or rather going mechanism, and "event" are to physics, or the physiologist's "organism" and "metabolism" to biology, or the total personality to the particular acts of will. And the

transfer of these mechanistic, organic or personal meanings to economics is not metaphysics but hypostasis, materialism, animism, personification, each of them belonging to the category of false analogy.[1] Wherever one or another of these transmigratory meanings occurs in economic theorizing, we consider the resulting intellectual tools unfitted for economic research or action, although, on account of the paucity of language, we are often compelled to use them by way of allowable dramatic analogy, or figure of speech.

2. Formula of Transactions.

Since transactions and their repetition as going concerns are the subject matter with which this book deals, and since the historical development of mental concepts suitable for their investigation is our method of approach, a preliminary statement will aid in the exposition to follow. Managerial and judicial transactions employ the social psychology of command and obedience, whether it be in the industrial transactions between employees and their foremen, superintendents, boards of directors or arbitrators, or in the political transactions between citizens and policemen, executives, juries, legislatures or supreme courts. The industrial transactions pertain to the working rules and customs of industry; the political transactions are known as process of law. The distinguishing mark of these managerial and judicial transactions is absence of alternatives. The employee or citizen must obey, or suffer punishment.

1) Henshaw Ward has written a book on these mental operations which he calls Thobbing. (1926) The foregoing distinctions were clarified for me by Dr. Erich Voegelin of Vienna.

But bargaining transactions imply the social psychology of persuasion or coercion, in that the parties have each a choice of alternatives between which they can select without punishment. A coercive bargaining transaction is one in which the alternative for one of the parties is onerous, but not looked upon as punishment for disobedience. A persuasive transaction is one in which both alternatives for both parties are beneficial. Managerial and bargaining transactions shade off into each other and differ within themselves so that, in any particular transaction, there may be differences of opinion as to the classification. These differences require investigation and social standards of measurement.

A transaction is more than an exchange of goods or transfer of title -- these occur at a point of time in the total process of a single transaction. One transaction arises out of others, begins with negotiations, advertizing, conferences, arguments, etc., leading to an agreement or decision, then followed by the performance, avoidance, or forbearance agreed upon, the whole process occupying, in duration of time, a few minutes to 99 years, more or less. A transaction thus creates a working rule for the future, and then a repetition, duplication, and variability of transactions when coordinated under working rules and customs, constitutes a going concern. A going concern is the expected repetition of beneficial transactions.

It will thus be seen that the characteristic transactions of modern business are the commercial credit transactions which determine the legal control of industry. A commercial credit is to be looked upon as a single transaction with two sides, a commodity side facing towards the future on a commodity market of

producers and consumers, and a pecuniary side facing towards the present on a money market, where the same producers and consumers are acting as borrowers and lenders through the medium of transactions with bankers. On the commodity side it is a promise to pay, enforceable at law, usually within 90 days, by one business man to another business man, for a quantity of goods at a price agreed upon. On the pecuniary side, it is the present value, discounted by a bank at a rate of interest for a lapse of time, of that promise to pay in the future, which thereupon serves as money, or the present purchasing power of checks enforceable on demand at the bank. Such a transaction, of which one side is future income and the other is its present purchasing power, when repeated and multiplied in billions of variable dimensions, not only determines the quantities and prices of commodities to be produced, but also creates, cancels and renews the quantity of money in the form of demand credit, needed to carry on the further production of commodities. These commercial credit transactions thus contain in themselves the business men's decisions as to the five dimensions of economic science above mentioned, namely, Futurity, Scarcity, Productivity, Custom, and the Physical Force of Government.

The subject matter of transactions is a highly complex set of changing economic and legal relations, and therefore the following formula is here offered in order to obtain precision of terms and to serve as a tool for critical study of the various economic theories to follow.

The familiar economic formula of a market is that of two buyers and two sellers between whom exists the threefold economic relations of competition, choice of opportunity and economic power. Each relation, however, is influenced by the common fact of variable degrees of futurity characteristic of a credit system. The formula may be constructed as follows, in which B and B' are competing buyers, and S and S' are competing sellers. Each comes upon the market with an idea of the price he is willing to bid or take for a given commodity, indicated here by dollars to be paid, say, in 90 days and discounted into present purchasing power by a commercial bank.

Figure I

Economic Relations

$100	B	Competition (Opportunity)	B'	$90.
		Power		
$110	S	Opportunity (Competition)	S'	$120.

B is the stronger buyer, in that he is willing to go as high as $100 payable in 90 days, whereas his competitor B' is willing to go only to $90. S' is the stronger seller, in that he is willing to take as low as $110 whereas his competitor S' is not willing, if he can help it, to take less than $120.

On the other hand B and B' are competing for a choice of opportunities between paying $110 to S and $120 or less to S', while S and S' are competing for a choice of opportunities between selling to B for $100 or selling to B' for $90, or more.

If a transaction actually occurs it will occur between B and S at some point between $100 and $110 which will measure the relative economic power, that is, bargaining power, of the two bargainers. If the price agreed upon is $100, then that price measures the relation between expected degrees of scarcity for the two parties B and S. One is the degree of scarcity of money for B compared with the degree of scarcity of the commodity for him. The other is the degree of scarcity of money for S compared with the degree of scarcity of the commodity for S. The price $100 measures the relative scarcities existing between these four degrees of scarcity of money and commodity for B and S, and is therefore a measure of the relative economic power of the two under all the circumstances and expectations of the actual time and place. This is the relation of price or the measure of the relation between the several degrees of scarcity, to which we give the name Economic Power.

But there are two other relations of scarcity for both B and S. These are opportunity and competition.

If it were not for the presence of S who sells for $100, and if B, as a consumer and buyer, were economically weaker in that the degree of scarcity of the commodity for him was greater than the degree of scarcity of money for him, then he might be forced to pay as high as his next worse opportunity, the $120 demanded by S'. The presence of S, however, enables him, as a purchaser, to avoid this worse alternative outgo of money, in that otherwise he would be compelled to pay $120 instead of $100. This worse alternative may be given the name negative value, nuisance value, dis-opportunity value, or the value of the

service which I renders to B under the actual conditions of relative scarcities, by furnishing to him the opportunity of buying at $100 instead of buying from B' at $120. This value of service idea was suggested by Adam Smith and was made the basis of value by Bastiat in answering the Socialists, and by the railroad and public utility corporations of America in the arguments against reductions of rates by railroad commissions. It is a scarcity value enjoyed by having more abundant opportunities. We shall give to it the technical name, Dis-Opportunity Value, or Value of Service. Dis-opportunity value is the negative value to self, as a buyer, in avoiding a worse opportunity to buy.

Again, looking at the situation from the standpoint of the seller S, if it were not for the presence of B who pays $100, and if S, as a seller, were economically weaker in that the degree of scarcity of money for him was greater than the degree of scarcity of his commodity, then S might be forced to accept as low as his next best opportunity, the $90 offered by B'. The presence of B enables him to forego this worse alternative income in that otherwise he would be compelled to accept $90 instead of $100. This next best alternative which he must forego may be given the name negative cost, or "utility cost" as it was named by Böhm-Bawerk, or "opportunity cost" as it was named by Davenport, for it is a cost, not in the positive sense of a positive outgo of the commodity which S sells, but in the volitional sense of a negative cost, namely, the alternative lesser income which he might have had but had to forego because he took the better income, $100, and could not take both the $100 income and the $90 income at the same time for the single commodity

which he had for sale. It is a scarcity cost imposed by limited resources. To this economic relation, we shall give the technical name Opportunity Cost, or Cost of Service. Opportunity cost is the negative cost to self, as producer and seller, of foregoing a less beneficial opportunity to sell.

It will be seen, in this description and nomenclature, that legal tender money is the center and standard not only of measurement but also of the social relations involved and of the hopes and aims of all producers and consumers. Each producer must convert his product into money, and each consumer must have money in order to get products, so that money epitomises both economic power and the largest freedom of choice in a world of division of labor. Thus money is the outstanding characteristic of modern economic life. Moreover, it is legal tender money, or the equivalent on demand of legal tender, because it is founded on a credit system whose standard is the expectation of what courts will do in the enforcement of contracts to pay money and to deliver commodities at specified dates in the future or unspecified dates on demand. For this reason, money is the all-important social institution for all producers and consumers. Yet the money in question is not a cash nexus except by metaphor -- it is a credit nexus by actuality. For this important social reason, the nomenclature turns on money. Value is expected money income; Cost is expected money outgo; Value of service is alternative larger money outgo avoided; and Cost of service is alternative lesser money income foregone.

We thus have four economic dimensions for every economic transaction, all of them focusing on the legal institution of money with its settled expectations of what courts will do, and all of them highly variable for different transactions, but all of them found in the typical formula and anticipated in the theories of various economists. When stated in terms applicable to both money and commodities, they may be named Postive Income, Postive Outgo, Alternative Greater Outgo, and Alternative Lesser Income, but when stated with regard to money as the center of social importance they may be named Postive Value, Postive Cost, Value of Service and Cost of Service, all in terms of money or credit. The most general corresponding terms, designed to bring out the ultimate scarcity relations involved, are Bargaining Power (positive value and positive cost), Dis-opportunity Value, and Opportunity Cost. These concepts will be more fully analyzed when we come to the economists who first proposed them.

The terms Income and Outgo here employed carry with them the meaning of scarcity, since income is an addition to the quantity of commodity or money in possession of the recipient, thus diminishing its scarcity by increasing its abundance for him, while the term outgo signifies a deduction from the stock on hand, thus increasing its scarcity by decreasing the abundance possessed by the one who yields the outgo.

This changing relation between the individual and the quantities of his various possessions we designate the <u>degree of of scarcity</u> of each possession, which is continually changing with income and outgo. Mathematically, scarcity is a ratio between the quantity wanted and the quantity owned, and this

scarcity ratio is diminished by income and increased by outgo. In other words, the degree of scarcity of a particular possession, assuming the quantity wanted does not change, varies inversely with income and directly with outgo. But since the quantity wanted of a particular possession cannot be known, except that it is continually changing, it is the relative scarcities of different possessions that can be known and measured by the choices and exchanges.

Thus, in the foregoing formula, B's income of commodity is exactly S's outgo of commodity, and B's outgo of money, $100, is exactly S's income of money. The outgo of commodity from S increases the degree of its scarcity for S, and the identical income of commodity for B decreases its degree of scarcity for B. So with the changes in the degrees of scarcity of money for B and S. The outgo of money has increased its degree of scarcity for B and decreased its degree of scarcity for S.

But these degrees of scarcity for individuals are subjective and immeasurable. All that we can know from the transaction is relative scarcities. The scarcity of money for S, prior to the transaction, was greater than the scarcity of the commodity for him, but after the transaction, his scarcity of money was reduced by the income of money, and the scarcity of commodity increased by the outgo of commodity. The inverse is true of B. Relatively, we know there are these changes in the various degrees of scarcity, measured, not by degrees of scarcity, but by relations between the several degrees of scarcity.

It is these relative scarcities for different individuals, which are ratios between their different degrees of scarcity, the latter being also ratios, but immeasurable, that we name Bargaining Power. Bargaining power is the power of relative degrees of scarcity to induce action, and the only system of measurement which we have, however inexact, is the money system which measures the relative scarcities and the changes in relative scarcities during that process of outgo and income of commodities and income and outgo of money which we name transactions.

These scarcity meanings have here been examined because it is believed that they were not distinguished by the early physical economists and their present day successors, from the efficiency ratios of output and input. It was assumed by the labor theorists that output was identical with income, and input identical with outgo. But the difference here intended to be expressed by the two sets of terms is as different as scarcity and efficiency. Efficiency is a purely physical relation between an amount of energy put in and the amount of work done. The former is input, the latter is output. If there is no loss then the ratio of output to input is 1 to 1, that is, 100% efficiency. If there is a loss then the degree of efficiency is reduced by that amount, so that the degree of efficiency varies directly with output and inversely to loss. Since, however, in the case of human labor, there is no way of measuring degrees of efficiency, because there is no measurement of the input in terms of human energy, practical purposes are met by relative efficiences, where the man-hour is the unit and the relative efficiences vary directly with output per man-hour.

This output is here designated use-value, and has no functional relation whatever to human wants, that is, to the ratio between quantity wanted and quantity available. It is purely a physical concept of the quantity of use-value added by human labor, the characteristic value of the physical economists from Locke to Marx and McCulloch.

Whether this output shall become income for the laborer depends upon the legal and economic situation. The output of a slave is not his income -- it is his master's income. The commodities which the slave receives in exchange are his income and his master's outgo. Nor is the output of a wage-earner his income -- it is his employer's income. The money which he receives from his employer is his money income and his employer's money outgo. Only in the case of the isolated worker, or the worker who is both worker and proprietor as understood by John Locke and Adam Smith in the case of their typical laborer, the farmer, manufacturer, or merchant, was his output his income.

Likewise with outgo and input. Outgo signifies a deduction from a supply on hand, but input, being a physical concept, has no reference to the scarcity concept, supply. Hence there is a treble meaning of labor, which we shall come across, either an outgo of energy from a limited supply of energy owned by the laborer (Locke) or an outgo of pain from a limited supply of happiness enjoyed by the laborer (Smith) or an input of energy from a human machine without regard to its property-rights or happiness (Ricardo, Marx).

If we go in a different direction and inquire what are the elementary but variable dimensions of an individual's behavior in his choices as a participant in a transaction involving these economic dimensions, we find that they can be reduced to the three dimensions, performance, avoidance, forbearance. While these terms indicate universal dimensions of all behavior,[1] their applicability may be pointed out in the foregoing formula of a transaction. S, for example, "performs" when he makes the agreement with B and delivers the commodity. He "forbears" insofar as he does not take full advantage of his presumable economic power, but accepts $100 instead of the $110 he might perhaps have been able to exact. He "avoids" in that he forgoes the $90 offered by B'. On the other hand, B "performs" by promising and pay $100; he "forbears" in that he does not use his presumable economic power to force S down to the $90 which he might have been able, under the circumstances of competition, to compel S to accept. He "avoids" paying the $120 asked by S' by reason of having the opportunity of getting the commodity from S at $100.

These three dimensions of each individual's behavior are found in all transactions, and will be found to be the dimensions that come up for investigation in courts of law.

The efficiency idea means a different type of transaction from the scarcity idea. This we name the Managerial Transaction, distinguished from the Bargaining Transaction. The bargain transaction is typified in the forgoing formula of four parties with the three scarcity relations of bargaining power, choice of

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1) Cp. Commons, Legal Foundations, 69 ff.

opportunities and competition. Here the psychological terms applicable are persuasion or coersion, and the parties are legal equals, though economic unequals.

But the managerial transaction exists only between two persons who are legally superior and inferior, such as foreman and employee, and the psychological relation between the two is command and obedience or punishment. The bargaining transaction results in prices (including wages), signifying the reciprocal scarcity relations of income and outgo, but the managerial transaction results in production, signifying the efficiency relation of output to input. Of course, both these managerial and bargaining transactions are continually changing, through legal and economic changes, from slavery, serfdom, small manufacturers, merchants, and farmers, to modern factories and world markets.

The psychological terms above employed require a further distinction to be made. While the biological psychologists are satisfied with such terms as "stimulus and response", these terms acquire a specialized application in human relations which may be distinguished as inducements and sanctions. Inducements are the stimuli applied to individuals by other individuals, but sanctions are the stimuli applied to individuals by a collection of individuals acting in concert. Inducements are indicated as the psychological relations between the four individuals in the preceding formula of a transaction. Usually, also in the case of sanctions, an individual represents the group, as an executive or foreman, and it is this that gives him the position of superior. And the sanction, rather than inducement, which he employes, is derived from the expected collective action in case of disobedience.

Sanctions are commands and punishments authorized by collective action; inducements are persuasion or coercion exercised by individuals.

It is this distinction that connects managerial transactions with judicial transactions. When a decision is made by a judge or arbitrator it takes the form of a command requiring obedience, enforced by that alternative collective action which we name punishment, but which, from the standpoint of the stimulus to obey, is named the sanction.

Inducements and sanctions equally operate on the will as offering a choice of alternatives, but inducements offer alternatives which only individuals, as such, can execute, while sanctions offer alternatives enforced by the concerted action of groups, directly or through their authorized representatives.

This classification of inducements and sanctions requires a further distinction between the kinds of inducement or sanction. These may be distinguished as moral, economic, and physical. The moral inducement or sanction is only the collective good opinion to be obtained by acceptance or obedience, without any economic gain or loss, or any fear of violence. Economic inducements and sanctions are profit, loss, bankruptcy, wages, employment, unemployment, and the many other varieties of income or outgo obtained or suffered by reason of individual or collective action. Physical inducements and sanctions are simply violence employed or threated by individuals and collection of individuals.

It is impossible, in many transactions, to separate these three types of inducements and sanctions, since they are all operating together, but the whole progress of law and economics

through the centuries consists in trying to separate them, first by eliminating physical violence from transactions, then eliminating unequal economic power and leaving the field for moral power.

In all of these three types of bargaining, managerial, and judicial transactions and in each of the three dimensions of bargaining transactions, conflicts have arisen which have required decisions to be made by superiors who enforce the collective sanctions, and the legal or extra-legal relations thus emerging require also a formula based upon the sanctions. By legal relations we mean those whose sanctions are violence; by extra-legal relations we mean those whose sanctions are economic or moral.

This formula, in order to be complete, is highly complex, as below, and applies to any dispute that may arise between any one of the four participants in the bargaining transaction and any other of the four, as well as participants in the managerial and judicial transactions, and to all of the sanctions whether physical, economic or moral.

On analysis, it will be seen that all economic disputes arising from bargaining transactions may be classified under the three heads, bargaining power, value of service, and cost of service, while all disputes arising from managerial and judicial transactions may be brought under the head of the extent of authority which the superior as executive or judge has over the inferior.

These four types of disputes, however, can all be brought within a single formula of legal or extra-legal relations, first devised for legal relations by Hohfeld and then developed by Corbin[1]

to which we have added the corresponding collective action directed towards the opposing individuals.

We also find it necessary to make the distinction between Opposite Persons and Collateral Persons. Opposite persons signify the two parties, of which the following are typical:-buyer and seller in bargaining transactions; foreman and employee in managerial transactions; court and litigant in judicial transactions. Collateral Persons are "third parties", who interfere or threaten to interfere with the process of the transaction, and these, in the bargaining transactions are those who interfere with bargaining power, competition or choice of opportunities. The formula of Legal Relations applies to both opposite persons and collateral persons, with differences to be noted later.

There is, however, a double meaning of the term opposite -- economic opposites and legal opposites. The legal opposites are plaintiff and defendant, and these may be either economic opposites or economic collaterals, according to the nature of the economic dispute at issue. The legal opposites are sufficiently implied in the terms, plaintiff and defendant. The economic opposites and collaterals are given explicit designations in the following formulae.

Furthermore, the formula, when it gets down to the actual physical behavior of the individuals upon which the legal and economic relations depend, signifies one or all of the three dimensions of human action, namely, performance, avoidance, forbearance as the case may be. The formula applies therefore to any

1) Hohfeld, W.N. Some Fundamental conceptions as applied in Judicial Reasoning, 23 Yale Law Journal 16; 26 Yale Law Journal 710; Corbins, A.L., Legal Analysis and Terminology, 29 Yale Law Journal 163; Commons, Legal Foundations of Capitalism 91 ff.

issue involving the individual behavior of performance, forbearance, avoidance, for the sake of the resulting economic issues of Efficiency and Scarcity in their aspects of management, value, value of service, cost and cost of service.

Figure II
Legal Relations
Economic Opposites

Plaintiff						Defendant
Legal Relations	Collective Action	Auxiliary Verbs	Collective Expectations	Auxiliary Verbs	Collective Action	Legal Relations
Right	Security	Can	Sanction	Must	Compulsion	Duty
No Right	Exposure	Can not	No Sanction	May Need not	Liberty	No Duty (Privilege)
No Duty (Privilege)	Liberty	May Need not	No Sanction	Cannot	Exposure	No Right
Duty	Compulsion	Must Must not	Sanction	Can	Security	Right

In explanation of the formula, the legal right of one person is the equivalent legal duty of the opposite person, but since this right-duty relation is limited, the boundary is the point of no-right ÷ no duty, the latter given the name "privilege" by Hohfeld. But the parties have reciprocal rights and duties, so that each person in a transaction, has a field of right, no-right, no-duty and duty.

Yet these legal relations are of no significance except as they carry an expectation of penalty or sanction to be imposed by collective action. A legal right means a correlative and equal duty imposed upon the opposite party by an expectation of the sanction of collective violence in case of disobedience; and a legal right without such a sanction is no-right. Only by hypostasis can it be

called a legal right, because, if there is no sanction of violence then there is no legal duty, although there may be an economic duty or a moral duty sanctioned by collective action other than violence.[1)]

The economic correlatives are evident. If one person has a right to the exercise of bargaining power, or managerial or judicial power, it signifies that he has the security of collective action for those expectations against the opposite party who thereby is burdened by a duty enforced by collective compulsion, exactly equivalent to the scope of the security. If he has no duty (privilege) with its absence of collective compulsion then he enjoys liberty, and this liberty is exactly equal to the exposure of the opposite party to such bargaining power or managerial or judicial authority, as the privileged party is able and willing to exercise. The reciprocal relation holds likewise. Hence, each person in a bargaining, managerial or judicial transaction has four collective relations to an opposite person, with their equivalent collaterals, namely, Security insofar as he has a right to require collective compulsion in another; Exposure insofar as he has no right to require collective compulsion on another; Liberty insofar as no collective compulsion is imposed on him; and Compulsion itself insofar as he is required by collective action to perform, forbear, or avoid for the good of the other.

In order to interpret these collective relations to the individuals in terms of their behavior, Corbin has expressed them by a set of auxiliary verbs of Capacity or Capability, indicating

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1) These analogous economic and moral duties and sanctions will be introduced in the chapter on Bentham.

the expectations of a person with reference to using collective action. These legal auxiliaries are applicable to any one of the verbs indicating performance, avoidance, or forbearance. Thus the verb "can" serves to indicate the expectations of one to whom the collective action of physical force is available against another, while the verb "must" or "must not" indicates the correlative collective action upon the opposite person upon whom is the duty of a performance, an avoidance or a forbearance.

Of course the negative, indicating "no right" and its correlative exposure, is the verb "cannot", indicating that collective action is not available to him, and this leaves the opposite person in the position where, instead of "must" or "must not", he "may" or "need not" perform, forbear, or avoid as he pleases, within the limit of this his immunity from collective action.

Thus each person in every transaction, with reference to what he may expect from collective action, has the various expectations of can, cannot, may, need not, must and must not, each of them applicable to any one or all of the three dimensions of his behavior -- performance, avoidance and forbearance, and the resulting economic relations of management, bargaining power, competition and choice of opportunities.

While all of these four forms of correlatives are present in all transactions, yet certain re-groupings of them have emerged which are coming to be known as the distinction between Intangible Property and Incorporeal Property. Intangible property is the expected profitable transactions based on liberty of competition, liberty in choice of opportunities, and liberty in the use of such bargaining power as one may possess. It applies to all bargaining

transactions and may be represented by the following re-grouping of the preceding collective relations. The characteristic feature of these transactions is the absence of collective sanctions, generally known as "free competition".

Figure III

Intangible Property--Bargaining Transactions

Plaintiff			Opposite Persons		Defendent	
Legal Relations	Collective Action	Auxiliary Verbs	Legal Expectations	Auxiliary Verbs	Collective Action	Legal Relations
No Right	Exposure	Cannot	No sanction	May	Liberty	No duty (Privilege)
No Duty (Privilege)	Liberty	May	No sanction	Cannot	Exposure	No right

In contrast to intangible property where there are no rights and no duties and therefore no sanctions of collective action available on either side, whatever may be the performance, avoidance or forbearance, the term Incorporeal Property may be distinguished as that where there are duties of performance, the principle economic examples being the duty to pay a debt or deliver a commodity and the duty to work in obedience to the commands of a proprietor or his representative. This formula is a regrouping, as follows, the essential feature being the sanctions:

Figure IV

Incorporeal Property--Managerial Transactions and Contracts

Plaintiff			Opposite Persons		Defendent	
Legal Relations	Collective Action	Auxiliary Verbs	Legal Expectations	Auxiliary Verbs	Collective Action	Legal Relations
Right Duty	Security Compulsion	Can Must Must not	Sanction Sanction	Must Can	Compulsion Security	Duty Right

A complete economic and legal analysis of transactions requires, as indicated above, the distinction to be made between economically opposite persons, sometimes described as first and second parties, and economically collateral persons, sometimes known as all third parties.

These terms are not without objection but they seem appropriate in distinguishing the economic equivalents of what in legal terminology is the distinction between rights *in personan* and rights *in rem*. Rights *in rem* are rights against all collateral persons who might interfere with the bargaining or managerial transaction or the enforcement of the performance, and here the correlative duty it always one of avoidance expressed by the auxiliaries "can" and "must not". Collateral persons may also be opposite persons, in that the collateral duties apply usually to first and second parties as well as third parties, in the process of transactions. They must not practice fraud, misrepresentation, extortion, discrimination, and so on. In other words, they must not interfere with the process of a transaction by methods deemed unlawful. The following formula indicates the distinction between

the foregoing relation of opposite parties, and indicates also that no tangible, intangible, or incorporeal property expectations are complete if these collateral rights and dutes of avoidance are not available. These are all duties of avoidance.

Figure V

Plaintiff		Economic Collaterals			Defendent	
Legal Relations	Collective Action	Auxiliary Verbs	Legal Expectations	Auxiliary Verbs	Collective Action	Legal Relations
Right	Security	Can	Sanction	Must not	Compulsion	Duty
Duty	Compulsion	Must not	Sandtion	Can	Security	Right

Thus the three important groupings of economic and legal relations are the intangible property of no rights and no duties, the incorporeal property of rights and duties of performance, and the collateral rights and duties of avoidance.

The foregoing formulae of transactions are mere outlines deemed advisable to be placed at this point for economy of reference wherever, in the following pages, we deal with economic or legal thinkers and judicial decisions which involve them. In the present form they are highly abstract, as befits mental formulae, but we shall find them filled with blood when we come to the economic, legal and political issues that turn upon them.

SUPPLEMENT TO CHAPTER I ON METHOD

III. Disputes:

If, now, we proceed to coordinate the foregoing economic and legal analysis of transactions, the coordination will be found to occur upon four kinds of issues which give rise to the relation of plaintiff and defendant.

Anyone of the parties to the economic transaction may bring suit against any one of the others, and the four classes of issues may be distinguished as

1. fair or unfair competition

2. equal or unequal opportunity, that is, reasonable or unreasonable discrimination.

3. reasonable or unreasonable exercise of economic or physical power, that is, ectortion, confiscation, coercion, duress, etc. These three involve the social psychology of persuasion or coercion, wherein the opposite party has an alternative, beneficial or onerous.

4. Jurisdiction involving the social psychology of command and obedience, wherein the opposite party, a subordinate, has no alternative. This includes the exercise of managerial, executive or judicial authority in using the collective sanction, whether economic, physical or even moral, in requiring subordinates to act in conformity to commands or prohibitions.

As illustration of fair or unfair competition, one of the parties, say S' or B, may bring suit against his competitor S or B' on the ground of unfair methods of competition, such as fraud, misrepresentation, etc., the substance of the allegation being that the defendant is pulling customers or clients away from the plaintiff by objectionable methods. These allegations go as far, in the case

of trade associations, employers' associations and labor organizations, as to claim that the defendant is unreasonably cutting prices or wages as a seller (S') or unreasonably raising prices or wages as a buyer or employer (B). The valuable asset of the plaintiff which is being thus injured has come to be known as goodwill.

The substance of this issue in dispute, it will be observed, is that of fair competition, versus free competition. For three hundred years the common law courts have been constructing this idea of fair competition in contradition of the older ideas of free competition,[1] and the process is expanding in these days more than ever before, along with the growth of collective action by trade, employment and labor associations.

The issue of discrimination, or inequality of opportunity, emerges, not in a suit of competitor versus competitor, but in a suit of buyer (e.g.B) against a seller, (e.g.S) or a seller (e.g.S) against a buyer (e.g.B) alleging that the defendant, if a seller (E.G.S) is charging the plaintiff (B) a higher price than the price paid by the plaintiff's competitor (B'); or in the case of a seller against a buyer, that the defendant (B) is paying to the plaintiff (S) a lower price than he is paying to the plaintiff's competitor (S).

The issue, here, it will be noted, is between a reasonable and an unreasonable discrimination, a reasonable discrimination turning on some recognized reason for the difference in prices, such as difference in quality, quantity, time of delivery, cost of production, etc., an unreasonable discrimination being one in which the difference in price is not proportionate to a difference in quality, quantity, cost of production or other justifiable

1. Commons, Legal Foundations of Capitalism, 263ff.

reason for discrimination. It will be noted that the two issues of unfair competition and discrimination may often emerge as two sides of the same issue, such that the suit may be brought by either a competitor or a customer or client.[1] An allegation of unfair competition by a competitor may be evidenced by a discrimination between customers or clients.

The issue of economic power arises in a suit between a buyer and a seller, for example, S vs. B or B vs. S. This issue does not necessarily involve equal opportunity, for the opposite parties may all of them pay exactly the same price. Yet the price may be equally extortionate or monopolistic for all. It may involve unfair competition, but is entirely consistent with fair competition since all sellers, though competing may not compete by price-cutting, but only by the arts of advertising and salesmanship. The prices charged by all may be equally extortionate. So with the buyers. They may not compete unfairly with each other, in fact may not raise prices or wages above those paid by competitors, but their fair competition may be equally coercive upon the sellers of materials or labor (clients).

Thus by starting with transactions, instead of commodities or feelings or individual self-interest, we discover that self-interest is regulated or restrained by group interests according to these inseparable standards of reasonable competition, reasonable discrimination, and reasonable prices.

On the other hand, the issue of jurisdiction is one that arises out of the relation of a superior (acting as executive, legislator, judge, arbitrator, foreman, or other representative of the collective power which imposes sanctions) to an inferior who is commanded by the superior to obey his orders or suffer punishment, such asdamages,

imprisonment, loss of employment or similar exclusion from participation in the transactions of the concern or system. Here the alternatives for the inferior are not the bargaining or competitive alternative of persuasion or coercion, but the alternative of obedience or punishment. The term jurisdiction, in its broadest sense, signifies the extent of the authority exercised by the superior in requiring obedience to orders issued, and excess of authority is known as ultra vires.

In order to devise a terminology that will separate this issue of jurisdiction from other issues, it is necessary to call attention to three meanings of the word power. These may be distinguished as legal power, collective power and economic power.

Legal power is distinguished by Hohfeld from legal right, in order to care for important distinctions arising in private litigation. A thief has the power, by an act of sale or purchase, to give good title to a negotiable instrument, such as bank note or money, even though he has no right of ownership in the object. An agent, in the same way, has power to transfer the title of ownership of a piece of property which he does not own. Other illustrations might be given.[1] Hohfeld arranges the opposites and correlatives of this legal power as follows:

OPPOSITES
Correlatives: Power - Liability
Correlatives: Disability - Immunity

These, it will be seen, are the legal power of individuals to change the legal rights and duties of himself and other private per-

1. Hohfeld, W.N., "Some Fundamental Legal Conceptions as Applied in Judicial Reasoning," 23 Yale Law Jour. 16 (1923); Corbin, A.L., "Legal Analysis and Terminology," 29 Yale Law Jour. 163 (1919).

sons, a highly important attribute in all economic problems of marketing, exchange, banking, etc., where the issues turn on the time, place and validity of the transfer of legal control over commodities and services. This meaning of power is limited to the field of private law, and belongs to the psychology of what we distinguish as inducements.

But the meaning of power, in the sense of collective power, is that of jurisdiction granted to an executive, legislative or judicial officer to put into operation the sanction of the going concern in requiring obedience on the part of private members of the concern. In the case of sovereignty, this concern is the state, this sanction is violence, and this official is the sheriff, acting under prders of the courts within their jurisdiction. In the case of economic power, this concern is an industrial or business organization, this s nction is fines, penalties, loss of employment in the concern, and this official is the foreman or labor manager acting on his own initiative or under orders of superiors who are given jurisdiction over him. These issues, in the case of sovereignty, arise in the field of constitutional law or public law, and the citizen may bring suit against an official, the sheriff, or even against a legislature,[1] on the ground of unconstitutionality, due process of law, equal protection, the issue being the exercise of collective power to compel obedience. Similar issues, in the case of economic power, arise in the systems known as collective bargaining, trade agreements, commercial arbitration, where arbitrators and executives are provided who decide disputes and execute the sanctions of the group but without the sanction of physical force.

1. Instances, Munn v. Illinois, 94 U.S. 139; Holden v. Hardy (the sheriff) 169 U.S. 366.

The terminology employed in the state and federal constitutions to indicate this relation of superior and inferior are privileges and immunities, where the term privilege, it is submitted, has the meaning of power and the term immunity the negation of liability. Following and expanding Hohfeld's analysis the set of opposites, correlatives and reciprocals is as follows:[1]

Collective Power - Jurisdiction

	Citizen		Official
Correlatives	Power	- - - - - - - - - -	Liability
"	Disability	- - - - - - - - - -	Immunity
"	Immunity	- - - - - - - - - -	Disability
"	Liability	- - - - - - - - - -	Power

Contrasted with these two meanings of power is the meaning of economic power, which is simply legal control over objects that are scarce. Here the subdivisions of this meaning of power are, as already indicated, reasonable or unreasonable discrimination, fair or unfair competition, reasonable or unreasonable prices or wages.

In all of these three meanings of power, the term Power has again two meanings, which we distinguish as jurisdiction and Sanction. Jurisdiction is the meaning of Power in the sense of authority delegated by the collective concern -- the state or industrial concern -- to its legislative, executive and judicial agents, to issue commands and require obedience. But sanction is the meaning of power in the sense of the compulsory alternative punishment held in reserve, if necessary in case the inferior does not obey.

Thus Hohfeld's "legal power" as well as legal right is such only because there is in reserve a collective sanction of physical force to give effect to private rights and private power. This sanction will not be applied until a suit is brought, in which

case the issue will be as to the jurisdiction of the court, legislature or executive, who decides the case and makes the general rule applicable to all similar cases.

Finally, in the case of Economic Power, which is legal control over objects that are scarce, this legal control is itself to be analyzed under three meanings, the legal right and legal power of individuals, the jurisdiction of officials, and the collective sanctions held in reserve. Furthermore, since the state is not the only collective instrument, and even in practice may be weaker than a great concern exercising the collective power of economic sanctions, and since this business concern also acts through agents, here again the same three meanings of power appear, but with the extra-legal meaning of economic sanctions in place of physical sanctions.

It is admitted that these distinctions are complicated, but they are important when we come to Bentham who was the first to classify legal and extra-legal sanctions. Here they are set forth in a preliminary way, to inducate the difficulties of terminology in the process of correlating law and economics.

Chapter II

JOHN LOCKE

John Locke is the outcome of the revolutionary Seventeenth Century in England. Maltreated in two revolutions by those whom he opposed and by those whom he approved, he published anonymously, or for politicians to sign, or merely made copious notes, during thirty years, and did not publish in England until fifty-seven years of age in 1689, after the Revolution which brought him home from exile and established modern Capitalism.

His range of experience was as wide and deep as the century afforded. Puritan by training and a life appointee at Oxford, he was silenced by the Puritans when they got control and removed by the King when he got control. His fortunes rose and fell with Lord Shaftesbury, minister of State, in whose home he lived, for whom he wrote on religion, science and politics, and whom he followed in exile. He saw the great and the small beheaded, imprisoned, their property confiscated and their opinions suppressed by Church, King, Puritan, and Judge Jeffries. He was a friend and associate of the new scientists, from Newton to Leeuwenhoek, a painstaking investigator in the new learning and a member of their new Royal Society for the Improvement of Knowledge by Experiment.

The outcome, in the person of Locke, was skepticism in place of knowledge, probability in place of certainty, reason in place of authority, research in place of dogmatism, constitutional government in place of absolutism, independence of the judiciary for the sake of property, liberty and toleration. In every branch of learning he epitomized the Seventeenth Century and dominated the Eighteenth. His Essay on the Human Understanding led Berkeley into idealism, Hume into skepticism, the French into materialism,

and Kant into the a priori forms and categories of knowledge, but Locke himself intended it only for reasonableness in all things. His Treatise on Government justified the Revolution of 1689 and led the American and the French Revolutions into the natural rights of man prior to law and custom, but Locke intended only to substitute the common law rights of Englishmen in 1689 for the divine rights of Kings alleged to descend from Adam. The same treatise set Adam Smith on the theory of labor instead of money as a measure of natural value, Ricardo as the measure of normal value, and Marx as the measure of robbery, but Locke intended only an argument against taking private property by force without a hearing and decision by an independent judiciary. His Letters on Toleration were the conclusions drawn from his doubts respecting the limits of human understanding and the limits of government in restraining liberty of opinion, speech, and assembly. All of these papers he had been writing and re-writing, or publishing in scraps anonymously or abroad for more than thirty years, but he published them openly at home only within the twelve months that displaced an arbitrary monarch by a monarch limited by law.

1. The Mind

Locke's Essay Concerning the Human Understanding was started with the practical purpose of finding how much the human mind could really know and not know. It grew out of the disputations and dogmatisms of the seventeenth century that led to confusion, intolerance and violence. "Five or six friends," he says "meeting in my chamber and discoursing on a subject very remote from this found themselves quickly at a stand by the difficulties that rose

on every side. After we had a while puzzled our selves without coming any nearer a resolution of those doubts which perplexed us, it came into my thoughts that we took a wrong course; and that before we set ourselves upon inquiries of that nature, it was necessary to examine our own abilities, and see what objects our understandings were, or were not fitted to deal with." [1] This was Locke's "new way" of investigating first our mental tools of research before investigating the output of the tools which marks his creative genius and ended in this essay on Ideas, Words and Probability.

Ideas in the mind are the only objects that men really know, signified outwardly by words. The "received doctrine" had been that men have "native ideas and original characters stamped upon their minds, in their very first being." Locke disposed of this doctrine in detail and then proceeded:- "Let us suppose the mind to be, as we say, white paper, void of all characters, without any ideas; how comes it to be furnished?...To this I answer, in one word, from experience."

Experience is sensation and reflection. The five senses convey into the mind corpuscles which produce there ideas of sensible qualities existing in external objects and expressed by signs, such as yellow, heat, hard. Reflection is the "operations of our own mind within us, as it is employed about the ideas it has got, "accompanied by feelings of "satisfaction or uneasiness arising from any thought." These operations, "when the soul comes to reflect upon and consider, do furnish the understanding

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1) Locke, John. An Essay Concerning the Human Understanding, Epistle to the Reader.

with another set of ideas which could not be had from without," and are "wholly in himself". They "might properly be called internal sense", and the ideas originating from this internal sense are "perception, retention, attention, repetition, discerning, comparing, compounding, and naming."

The foregoing are the two sources of "simple ideas", and the understanding does not have "the least glimmering of any ideas, which it does not receive from one of these two!"[1] These simple ideas, derived from both sensation and reflection, are the ideas of Pleasure and Pain which afford "reason to prefer one thought or action to another;" the idea of Power, observing in ourselves that we move our bodies and that natural bodies are able to produce motions in other bodies; the idea of Existence, as when we consider ideas to be actually in the mind or things actually without us; the idea of Unity, as when we consider "one thing, whether a real being or an idea;" and the idea of Succession, "constantly offered to us by what passes in our own minds."[2]

Built upon these simple ideas are complex ideas which are "collections" of simple ideas, namely "Substances," like man or air; "Relations", like husband and wife; and "Modes" such as space, time, good, evil, justice, murder, fear, etc. These simple and complex ideas are the only things we know. "The mind, in all its thoughts and reasonings, hath no other immediate object but its own ideas, which it alone does or can contemplate...and Knowledge is nothing but the perception of the connexion of and agreement, or disagreement and repugnancy of any of our ideas."[3]

1) Ibid. book II, chap. 1
2) Ibid. book II, chap. 3
3) Ibid. book IV, chap. 1

Thus Locke makes a complete separation of the soul, on the one hand, from the external world, on the other. The soul observes itself operating about certain ideas which it combines and recombines by reflection, from simple ideas to the highly complex ideas of substance, cause, effect, morality, divine law and civil law.

This separation of an internal mechanism, the mind, from an external mechanism, the world, is characteristic of the physical economists, from Locke to Marx. The concepts necessary to get away from this dualism and to substitute a functional relation between the mind within and the world without were not devised until Menger, in 1871 constructed the idea of a feeling of dependence upon external objects believed to be fitted to satisfy wants, a feeling which diminished in intensity according to the expected abundance of these objects. Thus it required the later concepts of scarcity and futurity to furnish the functional notion of changing degrees of dependence of the mind and body upon the external world, instead of the absolute separation, by Locke and his followers, of the mind within from the world without.

Furthermore, Locke's mechanistic idea of the mind was that of a passive receptacle of ideas, in the form of Newton's corpuscles arriving from without, which then were manipulated within, and this, too, was characteristic of the physical economists, culminating in Karl Marx who reduced the individual consciousness to a mere copy of the production and acquisition of wealth. It required a still further notion of the mind as the whole body in action, instead of particular sensations coming in to the body, and this whole body as a creative agency manipulating the external world

and other people in view of expected consequences, in order to unite, in the idea of a repetition of transactions, Locke's corpuscular sensations, reflections and volitions. This remained for modern psychology and economics.

Yet Locke prepared the way by his doctrine of Experience and by his demonstration that the original of all our ideas is only the five senses which give us only a more or less imperfect picture, but not an innate or certain knowledge of the world. It requires only the abandonment of his physical concept of the mind, derived as it was by analogy to the only sciences -- physics, chemistry, optics, and astronomy -- then in vogue, and the substitution of concepts suitable for the same experimental method of studying psychology, history and economics as that which he and his contemporaries employed in the physical sciences.

With this object in view, it appears that if we substitute the term "meaning" for Locke's "idea" we shall obtain what he had in mind, but without the mechanistic implication of subjective corpuscles moving around in the mind, separated from the world without. The term "meaning," as here intended, signifies both the subjective and objective sides of the functional process of acting, reacting and interacting of the changing world without and within, whereas the term "idea", as used by Locke, means something introspective and static.

The term "meaning" also carries the idea of a relation of the parts of experience to the whole of experience, past, present and future, and therefore is inseparable from feelings, and carries the idea of significance, value, or relative importance under all the changing circumstances, whereas Locke's "ideas" are only a

bare intellect mechanically compounding and re-compounding. This signifies that "meaning" carries the notion of expectation. The word meaning signifies more than the content of an idea -- it signifies the expectations aroused by the content. Locke's "ideas" were only internal copies of something going on without, whereas the term meaning signifies the importance of those ideas for action, immediately or later.

In this respect the term "meaning" signifies an inseparable aspect of valuing and choosing. Locke's word value, as we shall see, meant solely an external quality, use-value, existing in objects, of which we have an internal "idea", but modern usage is converting the noun Value into the verb "valuing" which consists in the feelings of relative importance aroused by immediate or expected events. Meaning and valuing are therefore inseparable from each other, the one being the intellectual, the other the emotional side of the same mental process.

But meaning and valuing are inseparable also from choosing, which is the external evidence of the meaning assigned and values imputed. Locke's idea of Power gave him much trouble and was revised in the second edition. The explanation is evident. His separation of the mind as a mechanism within from the world as a mechanism without, could give to him only the meaning of cause and effect as his idea of Power. The mind sees itself moving things and sees other objects moving things, and hence comes the idea of Power in the sense of cause and effect. There was here no room for the idea of choosing between alternatives, which is the fundation of modern economic theory. Had he applied his experimental instead of introspective method of psychology as he

and his contemporaries had applied it to physics, then, instead of following a physical analogy for his explanation of the mind, he might have observed that the mind is a process of repeatedly choosing between the best alternatives actually accessible, which also are continually changing in their activity, their meanings and their relative importance. Converted into terms of Power, this is a functional relation between the living body and the external world, wherein the mind is itself a process of choosing between different degrees of power over the world and other people according to the meanings and valuings, that is, the relative importance, attributed to the available alternatives.

This functional concept of choosing involves the repeated three-fold relation of the body to the world without, namely performance, or the exertion of power in one direction; avoidance, or the rejection of the next best alternative performance; and forbearance, the choice between a higher and a lower degree of power in the actual performance.[1] Upon these three dimensions of the will in its bodily action economic and legal theory is builded. They are all a process of choosing, and since this is the characteristic of living behavior distinguished from inanimate behavior, we shall usually employ the term "choosing" as the equivalent of such terms as "behavior" and "acting", and as the proper meaning of Locke's "power". These three dimensions of choosing -- performance, avoidance, forbearance -- can find no place in Locke's dualistic idea of the mind as a passive mechanism within, copying a world mechanism without. Thus understood, however, as the physical dimensions of choosing, the three terms Meaning,

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1). Commons, Legal Foundations, 69 ff.

Valuing, and Choosing are the inseparable intellectual, emotional and volitional process of man's behavior in dealing with the physical and human world, instead of Locke's separated mechanisms of an internal world and an external world.

Yet the term "meaning" retains the same significance as his term "idea", for it indicates, not that certain knowledge which is nothing short of infinite, but that very imperfect and even illusory knowledge upon which human beings actually behave, actually induce others to act, and likewise change their habits of acting in process of time.

Words, with Locke, are, of course, not signs of things, but signs of ideas. They are social signs of mental signs. If properly used, a word, he says, should "excite in the hearer the same idea which it stands for in the mind of the speaker." [1] Yet this does not happen. Words excite different ideas, and, speaking from experience, he says, "he that shall well consider the errors and obscurity, the mistakes and confusions, that are spread in the world by ill use of words, will find some reason to doubt whether language, as it has been employed, has contributed more to the improvement or hindrance of knowledge amongst mankind [2].....This, I think I may at least say that we should have a great many fewer disputes in the world, if words were taken for what they are, the signs of our ideas only, and not for things themselves." [3]

Locke's remedies for the abuse of Words are:- No name without an idea for which it stands. The ideas themselves must be clear and distinct, if simple, like "yellow" or "white", and precisely

1) Ibid., Book III, chap. 9
2) Ibid., book III, Chap. 11
3) Ibid., book III, chap. 10

determined if they are those collections of simple ideas, like "justice" or "law" which have "no settled object in nature". The words must be applied "as near as may be to such ideas as common use has annexed them to." But since common use has "not visibly annexed any signification to words, " it is necessary to "declare their meanings". And, "if men will not be at pains to declare the meaning of their words, they should at least use the same word constantly in the same sense." If this were done "many of the controversies in dispute would be at an end." [1]

Thus Locke's Essay was not so much the philosophy of Skepticism, which it was supposed to be, as it was a handbook for consensus of opinion in practical affairs. It was a treatise on the meanings of words and the meanings of ideas as tools of research, agreement and action.

If knowledge has to do only with ideas, and ideas are only signs of things and not the things themselves, so that even a "thing itself is only a collection of simple ideas" [2], then, can there by any certainty of knowledge? The only certain knowledge, according to Locke, is of that mathematical character which perceives either immediately or by demonstration the connections, agreements, disagreements and repugnancies between ideas. If directly perceived, as that yellow is yellow, or yellow is not white, this is "intuitive" knowledge. If indirectly perceived by demonstration, as that the three angles of a triangle are equal to two right angles, this is "rational" knowledge. The two together constitute the intellectual basis of Reason, and insofar they constitute that certain knowledge of which there can be no

1) Ibid., book III, chap 11.
2) Ibid., book IV, chap. 11

doubt. This holds true of our knowledge of an "eternal, most powerful, most knowing, wise and invisible being" whose existence is "deducible naturally from every part of our knowledge." The demonstration thus deducible, which makes us certain of this Being, arises from the idea of cause and effect, wherein the effect cannot be greater than the cause. The effect is the world and ourselves, the cause is God.

This idea leads to two conclusions. Since one of these effects is man's intelligence, it follows that the original infinite cause must also have been an eternal mind. Second, the "order, harmony and beauty which are to be found in nature "could not have been produced had there not been a first eternal feeling, as well as intellect, who desired to see order, harmony and beauty, and thus contained in himself "all the perfections that can ever after exist."

This idea of an eternal mind that feels, makes us also certain that there is an eternal moral law, with its "measures of punishment", and this law is "as intelligible and plain to a rational creature, and a studier of that law, as the positive laws of commonwealths: nay, possibly plainer, as much as reason is easier to be understood, than the fancies and intricate contrivances of men, following contrary and hidden interests put into words." [1]

Hence Locke's notion of Reason was not merely that of an intellectual process. He injected into it an emotional meaning of ultimate purpose which we may name Happiness and an instrumental meaning of natural laws contrived to reach that purpose, which we may name Justification. He identified Reason with God, Nature's Laws and Human Hppiness, which, when it came to his

1) Treatise, Book II, sec. 14.

Treatise on Government, became a beneficent providence, eternal, infinite and unchangeable, which intended the welfare of mankind on principles of harmony, equality, peace, abundance and the preservation of life, liberty and property. For this reason he has been characterized as utilitarian in philosophy. His utilitarianism was that of an infinite sovereign, not Bentham's earthly legislature. Of this infinite sovereign's intention he had certain knowledge, deducible by demonstration upon which he founded his law of nature, his theory of natural rights, his theory of value, and his justification of property and liberty. God, Nature and Reason were identical, and they justified what Locke proposed.

We can thus see the basis of Locke's individualism. Human beings were not the product of habit and the customs of their time and place, but were rational units, like himself, who, by the exercise of reason, could be certain of the infinite beneficent reason of the universe and the laws of nature designed to attain it. There is but one infinite reason, an infinite cause, which all individuals can know for certain because they themselves are the effects of that cause. This infinite reason is therefore Locke's own reason made eternal and unchangeable. He begins with his own individual mind as the center of the universe, and not with that repetition of events, practices and transactions to which his mind had been so accustomed that they seemed natural, rational and divine.

For this reason he was required to make the distinction between certainty and probability, a distinction which modern science does not require, for it deals only with probability. He lacked the modern concept of Relativity, and sought for something fixed,

like an individual soul, an infinite reason, to which all changes might be referred. Yet even Locke himself was a process of change along with his changing experience of the changing events about him. And so with every individual. Locke's certainty, after all, was only an idea in his mind, like the certainties of mathematics and logic which are empty formulae. We do not know for certain that it exists in the finite universe without. This he insisted upon. Whatever comes from without and is therefore short of this intuitive or rational knowledge, "is but faith or opinion, but not knowledge, at least in all general truths" respecting the external world.[1]

If so, then that which passes for knowledge of the external world is only probability. Probability supplies the defect of knowledge "to guide us where that fails," and it "is always conversant about propositions whereof we have no certainty, but only some inducements to receive them for true." The grounds of probability are "the conformity of anything with our own knowledge, observation and experience," and the "testimony of others, vouching their observation and experience."

Probability varies in degree, and the mind which "would proceed rationally ought to examine all the grounds of probability and see how they make more or less for or against any proposition, before it assents to or dissents from it; and upon a due balancing the whole, reject, or receive it, with a more or less firm assent, proportionably to the preponderancy of the greater grounds of probability on one side or the other."[2] Thus, if probability,

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1) Book IV, chap 2
2) Ibid., book IV, chap. 15

belief, opinion, experience, take the place of certain knowledge the foundation is laid, not for Skepticism, but for distinguishing reason from reasonableness. Reason may give us the immutable laws of God, Nature, Perfection, but Reasonableness gives us mutual assent to the preponderance of probability in the affairs of life. It is Locke's doctrine of Reasonableness, not his doctrine of Reason, that survives.

We need not here review the two centuries of discussion that followed Locke's physical method of treating ideas as atoms which could be observed by introspection and talked about like mechanisms. With Berkeley it meant that we could know nothing but ideas and that the world without was for us only the idea of God. With Hume it meant that even our own existence was also only an idea. With Kant it meant that, of our own free will we construct rational laws for the universe and for ourselves. These were doctrines of Reason, not of Reasonableness.

On the other hand, if we employ the word "meaning", in addition to Locke's word "idea", then the meanings are the changeable significance of events and practices in view of probabilities and the changing meanings of reasonableness. The word is a substitute for what Santayana[1] intends perhaps by "essences", not Plato's essences that pre-existed eternally before the events in which they embodied themselves, but our own changeful meanings and values ascribed to things by what common sense which Santayana names "animal faith", equivalent to Locke's "faith or opinion". The word "meaning as here used, carries Santayana's meaning of essences,

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1) Santayana, G., Skepticism and Animal Faith (1827)

out without the physical metaphor of Plato that implies the existence of essences outside the mind. If we interpret ideas, concepts, essences and the like, to signify only the meanings and values which we assign, not only to words but also to objects and events, and even to Locke's ideas, we have terms suited not only to the changing interpretations of events and the changing interpretations of words, but also the changing ideas themselves, that have accompanied, not only the writings of economists, but, more important, the behavior of business men, laboring men, judges, legislators, whose meanings, valuings and choices it is that economists write about. All of them act and induce others to act, not upon perfect knowledge, but upon the meanings and valuings which they assign to the events which the words and ideas signify.

Most important of all, the term "meaning" implies that a sensation or feeling or idea doesnot exist abstractly as an isolated particle or atom bobbing against other ideas according to laws of association or reason, but that it exists as a functioning part within the whole complex moving process of memory, action and expectation. The meanings of ideas are much more than Locke's ideas -- they are the repeating and variable guides to behavior, which are continually repeating but changing as the behavior itself repeats and changes from hour to hour, year to year and even century upon century. Locke's "ideas" are timeless, eternal, unchanging essences, but the meanings of ideas are a changeable function of time in its flow out of the remembered past, along the present action, into the expected future.

Thus it is that meanings can be observed and are fitted for research and experiment. The important distinction can be made between the meanings assigned to words and the meanings assigned to ideas and events. Words, in economic behavior, as Locke commented generally, are used to conceal thought and to mislead, as well as to reveal thought and lead aright. What business men, laboring men, courts, executives, politicians and so on, really mean is not what they say, nor even what they think, but what they do. What they say and even think of God, Nature, property, liberty, etc., is their nominal meaning of words and of the ideas signified by the words; what they do is their real meaning, arising from their memory, activity, expectations, and alternatives. Thus meanings can be scientifically investigated in terms of choices, which is not the case with ideas, concepts and essences, for these are only mental formulae having no external reference except in the meanings, valuings, and choosings which they signify.

Hence we shall endeavor to maintain the distinction between Locke's "idea" and the "meaning of the idea". Ideas are mere mental tools or "constructs" subdivided into percepts, concepts and formulae of space or time, and signified by words, but the meanings of the ideas and words are their pragmatic significance for the actual human understanding upon which people act and induce others to act here and now. We shall find that the meanings of such terms as Property and Liberty have greatly changed since Locke's time, which, being interpreted, signifies not only that economic conditions have changed but also that new meanings are given not only to old words, but also that new meanings are imputed to the ideas themselves which the words are intended to signify, and hence new valuations and new ways of acting and

choosing accompany these new meanings. Economic events change in the process of time; the meanings of the same events also change in the ideas of men; so that the behavior itself changes in the valuations, the transactions and the going concerns that constitute these repeating but changing events in the life of men.

2. Value

Sir Thomas Filmer's "Patriarcha" had been published in 1680, though written in 1656, supporting the "divine right of kings" as a natural right to dominion over the lives, liberty and property of their subjects, answerable only to God from whom Kings derived the right.[1] This "glib nonsense" of "an English courtier" said Locke, "had of late been publicly owned by the pulpit"[2] and made "the current divinity of the times". Against this doctrine of a divine right of political power Locke set up the "natural right of life, liberty and property". The essential difference between the two was the difference between Filmer's organic analogy, where the parts are subordinate to the whole, and Locke's physical analogy where the whole is the sum of the parts.

These analogies applied both to individuals and to wealth. With Filmer, individuals were bound together by the original law of their social nature, like a family. With Locke, individuals came together for mutual convenience, like a convention. With Filmer, the wealth of the nation was the product of society, but with Locke, it was the sum of individual products. With Filmer,[3] the individual's ownership of that wealth was derived from the

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1) Figgis, J.N., The Theory of the Divine Right of Kings, 150 ff (1896)
2) Locke, John, "Two Treatises on Government", (Preface) (1689)

The Sovereign, but with Locke, private property preceded sovereignty. Hence, with Filmer, God and nature endowed the sovereign with rights by imposing duties on subjects, but with Locke they endowed the individual with rights by imposing duties on the sovereign. Each personified his own reasoning as the eternal reasoning of God and nature.

Locke founded his ideas upon a theory of Labor as the only source of value, and, on examination, it will be found that his idea of Labor-Value was a personification, in a single idea, of several complex ideas, namely, Usefulness, Productivity, Accumulation, Abundance, Divine Beneficence, Liberty, Property, Commonwealth and the good practices of manufacturers, farmers, merchants, landowners of whom he was one. Since Locke was the product of his time, we need to find the origins of these ideas as they came into his mind.

Sir Thomas Smith, 125 years before Locke's Treatise, had given a political meaning to the term "Common-wealth".[2] As ambassador from Elizabeth to the continent, he was struck by the difference between absolute monarchies or tyrannies and the Kingdom of England where the people participated in Parliament and had a hearing in the courts of the common law. The participating classes were the barons and the gentlemen, each of whom lived "without manual labor", and the yeomen, farmers, or freeholders, who were protected by the common law courts and who "travailed to serve" the Commonweath more than "all the rest". A fourt class, the proletarii were those who had "no free lande", such as the

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1) Figgis, J.N., "The Divine Right of Kings", 249 ff. (1896)
2) Smith, Thomas, "Republica Anglorum" written 1565, pub 1583

laborers, mechanics, and copyholders and even landless merchants and retailers. These had "no voice nor authoritie in our commonwealth, and no account is made of them but onlie to be ruled, not to rule others."

This distinction made by Thomas Smith in 1565 between landed and landless classes remained the ruling distinction in the political meaning of commonwealth for more than three hundred years in England and more than two hundred and fifty years in colonial and agricultural America. The issue as to this meaning arose in the armies of the Commonwealth[1] immediately after the final defeat of the King in 1647, where the Levellers demanded equal suffrage for all the soldiers, but Cromwell and Ireton determined that only those who had a landed interest could be trusted to stand for the permanent interest of the commonwealth.[2] This was John Locke's political meaning of commonwealth. A political commonwealth was a participation in government by those who had a permanent interest in land.

The economic meaning of Commonwealth begain to be distinguished as early as the political meaning. It arose from the confiscation of the monasteries, the conversion of arable to pasture, and the enclosures of common lands. In 1540, those who had acquired these confiscated lands and had raised the rents and evicted the tenants were denounced as bringing "a common wealth into a common misery". They, in turn, denounced their attackers as "commonwealth men", the leader and prophet of whom was the "Commonwealth called Latimer",

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1) cp. Commons, Legal Foundations of Capitalism, 222-224
2) The Clarke Papers, Camden Society, Vol I, 299 ff. Tawney, R.H. Religion and the Rise of Capitalism, 255-258. (1926)

who, from his office as bishop denounced them in turn as "step-lords and rent raisers". A hundred years later, in the armies of the Commonwealth, the Diggers, forerunners of American "squatters and mining prospectors, extended the meaning of commonwealth to the common lands, which they began to prepare for crops and to clear for cottages, whereupon they were suppressed by the courts and Cromwell's Army.[1]

Meanwhile, this economic meaning of commonwealth was extended by the common law courts to the field of manufactures and merchandizing. The distinction turned on the means by which a person gets rich. If he got rich by virtue of special and exclusive privileges of manufacture or merchandizing granted by the sovereign, then his riches were a deduction from the commonwealth without a corresponding contribution on his part. But if he got rich by manufacturing, by merchandizing, by retailing, by importing commodities from aborad, or by producing crops on his land, then his private wealth was no greater than his contribution to the commonwealth. Commonwealth was the sum total of private wealth. This kind of private wealth could be acquired only by industry and frugality; the other kind by monopoly and oppression. This became Adam Smith's idea of the wealth of nations.

Thus in 1599, a guild of tailors, operating under a royal charter, was judged by the highest common law court to be unlawful when it established a preference for its members in competition with non-members, because such a rule was "against the liberty of the subject and against the commonwealth".[2] In 1602, the same

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1) Clarke Papers, Vol II, 209-12. Published by the Camden Society; Gooch, G.P., English Democratic Ideas in the Seventeenth Century, 214-226 (1898); Tawney ibid., 256
2) Davenant and Hurdes, Moor (K.B.) 576 (1599)

court declared that a monopoly granted by Elizabeth to a courtier was "against the commonwealth" in that the grantee had no mechanical skill and therefore no jusitifaction in his legal power to forbid others to compete who had the art and skill which are "profitable for the commonwealth".[1] Again in 1610, a merchant, Bates, was burdened by an extra import tax imposed by the king without consent of Parliament, and, on his refusal to pay, his attorneys argued that the wealth obtained by an importer of foreign goods was an equivalent addition to the Commonwealth.

Lord Chief Justice Coke, who more than any other lawyer had developed this economic meaning of commonwealth, was removed by King James in 1616, and his removal became the historic foundation for Locke's independence of the judiciary against arbitrary control by the king, accomplished by the Revolution of 1689 and written into law by the Act of Settlement in 1700.

The same meaning of Commonwealth was further developed by the Puritan divines, reaching its highest expression in Samuel Baxter, contemporary of John Locke, who converted the village of Kidderminster from coarse living into a diligent and thrifty community. "The public welfare", said Baxter, "or the good of many is to be valued above our own. Every man therefore is bound to do all the good he can to others, especially for the church and commonwealth. And this is not done by idleness, but by labor. As the bees labour to replinish their hive, so man, being a sociable creature, must labour for the good of the society which he belongs to, in which his own is contained as a part...If God shew you a way in which you may lawfully get more than in another way (without

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1) Darcy and Allein, 11 Co. 84 b. (1602)

wrong to your soul or any other) and if you refuse this and choose the less gainful way, you cross one of the ends of your calling, and you refuse to be God's steward, and to accept his gifts, and use them for him when he requireth it; and you may labour to be rich for God, but not for flesh and sin...That calling which conduceth most to the public good is to be preferred... When two callings equally conduce to the public good, and one of them hath the advantage of riches, and the other is more advantagous to your souls, the latter must be preferred; and next to the public good the souls advantage must guide your choice [1]... Prefer a durable good that will extend to posterity before a short and transitory good.[2].....An oppressor is an Anti-Christ and an Anti-God..not only the agent of the Devil but his image." [3] A selfish private spirit "careth not what the commonwealth suffereth, if he himself may be a gainer by it." [4]

Those whom Baxter could not win to his view of church and commonwealth were the wage-earners, journeymen, apprentices, drunkards, in the village, and the landed gentry in the country, and those two classes were considered by him to be leagued together in opposition to church and commonwealth. [5] As Tawney has pointed out, even Baxter and Bunyan, "who continued to insist on the wickedness of extortionate prices, rarely thought of applying their principles to the subject of wages." Baxter defended, not wage-

1) Baxters Works 3:580, 584, 585
2) Ibid., 2:328
3) Baxters Works 3:580, 584, 585
5) The Autobiography of Richard Baxter (1696 ed by Thomas 1924) 28, 29, 34, 38, 40, 81, 82.
4) Ibid. 6:41

earners, but tenants, as against landlords, who should not be "necessitated to such toil and care and pinching want as shall make them life slaves than free men". But, as wage-earners, they need "a master who can establish a moral discipline among his employees which they would miss if they worked for themselves."[1]

Baxter's typical case of one who by becoming rich contributed yet more to the commonwealth was Thomas Foley, "who from almost nothing did get £5000 per annum or more by iron works, and with so just and blameless dealing that all men that ever he had to do with, that ever I heard of, magnified his great integrity and honesty, which was questioned by no one."[2] Thus it was wealth acquired by industry and frugality, subordinate to church and commonwealth, that marked the outcome of the Puritan spirit and the environment in which Locke got his ideas.

Tawney has well described the revolution that followed the year 1660 against both the arbitrary rule of the Puritans and the arbitrary rule of the Stuart kings,[3] and we have seen how John Locke shared in this revolution. The consequence was the demand that government should not interpose to subordinate private wealth to church and commonwealth. Locke was well prepared to support this demand both by his skepticism of the human understanding and by his theory of labor as the source of value. The kind of labor, however, which he had in mind was that of Coke and Baxter, the busy and thrifty laborer of the common law and of the Puritans, who worked and saved without compulsion, and accumulated landed

1) Tawney, op. cit. 224, 260, 268
2) Weber, Max, Religions Soziologie 1:164 (1922); Commons, Review of Tawney's Religion, etc. Amer. Econ Review, Jan. 1927; Powicke, F.J. A Life of the Reverend Richard Baxter, 1615-1691. 158-159 (1924); Tawney, Jeannette, chapters from Richard Baxter's Christian Directory (1925); Tawney, Religion and the Rise of Capitalism. 3) Tawney, op. cit. 227 ff.

property, manufactures and merchandise. It was not the labor of propertyless laborers, but the labor of Foley and his iron works, Bates and his merchandise.

Neither Locke nor any of his Puritan contemporaries had made the modern economic distinctions between rent, interest, profit and wages. Their attack was against persons, and not against the impersonal economic shares in distribution. All of these shares in distribution were combined in the single idea of personal compensation for labor by a small farmer, a master workman, or merchant, who was not yet removed from manual work alongside his journeymen and apprentices. Rent did not become an "unearned income", like the income from monopolies and patents, until the time of Ricardo, 125 years after Locke. It was only the excessive rent of rack-renting landlords and their unjust enclosures that were classed by Baxter with the oppressors and monopolists "against the commonwealth". Profit and interest were not as yet economically distinguished and indeed were not so distinguished until Bohm-Bawerk, near 200 years after Locke. Only usury, the excessive interest exacted by oppressive money-lenders, was classed against the commonwealth, whereas moderate interest charged for the use of one's property by others, which one might have used himself, was a kind of profit. And profit was hardly to be distinguished from wages where it was only the compensation for labor received by farmers, master workmen and merchants who worked harder than their employees. Not until the time of Adam Smith, three-fourths of a century later, had the employer become separated from the laborer so that profits were clearly distinguished from wages. If there were larger profits than ordinary

compensation, the difference, as Tawney says, was only one of degree and not of kind.[1]

Locke's theory of value, thus derived from his Puritan contemporaries, was a theory based on a meaning of Labor whose compensation was the ordinary compensation for industry and thrift, of a peasant farmer, a master workman, or a merchant, none of whom lived without work, and whose personal income, derived from their work, partook of what afterwards became the impersonal incomes of rent, interest, profit and wages. With him and others of his period, it was individuals, not functions, that were important.

Furthermore, with Locke and his Puritan contemporaries, all individuals were under a duty to work and accumulate, a duty imposed originally as punishment for the sin of Adam and Eve, and it was only those who actually worked and accumulated, and thus served the commonwealth, who fulfilled their duty to God. Labor was a punishment for sin, and consumption of wealth beyond our personal needs was both a deduction from the commonwealth and a disobedience of God's commands. The Puritan worked and accumulated because it was his duty to God.

This was the kind of laborer who produced value. Locke's meaning of value was that of productivity and accumulation which adds to the commonwealth and not that of scarcity which deducts from the commonwealth. Consequently his idea of private property was the idea of production, usefulness and happiness, each founded upon the idea of physically holding for one's own use as a producer, or enjoyment as a consumer, the products of labor, and not the transactional idea of reciprocal withholding from others

1) Tawney, ibid., 207

what they need because it is scarce, nor the economic idea of scarcity as inducement to work, distinguished from the idea of labor as punishment for sin. Scarcity was personified as punishment for man's original sin at the Garden of Abundance.[1] It is, however, this functional idea of scarcity that afterwards gave rise to the distinctions between rent, interest, profit, and wages.

With monopoly and oppression excluded as something derived from the arbitrary rule of monarchs, and with the scarcity idea of property and labor personified as Sin, it is evident that the productivity idea of value is identical with both private wealth and commonwealth. Whatever augments private wealth, which can occur only in the sense of productivity, is an augmentation of commonwealth, and commonwealth is the sum of all private wealth.

Each of Locke's basic ideas, in his Treatise on Government, is founded upon this productivity idea of value and this moral idea of sin. He personified in the single complex idea of labor the constituent ideas of God, Nature, Reason, Perfection, Equality, Liberty, Happiness, Abundance, Usefulness and Punishment for Sin. God wills abundance but the sin of man compells him to work for it.

Thus he says, "whether we consider natural reason, which tells us that men, being once born, have a right to their preservation, and consequently to meat and drink, and such other things as nature affords for their subsistence; or revelation, which gives us an account of those grants God made of the world to Adam, and to Noah, and his sons, it is very clear, that God, as David

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1) Below p 000.

says, Psal. 16, "has given the earth to the children of men; given it to mankind in common," and not, as Filmer says, "to Adam, and his heirs in succession, exclusive of all the rest of his posterity."

When Locke says God's gifts were given in common, he, of course, does not mean common ownership in the historical sense of the primitive tribal communism of an organized group which rations to each individuals his share, for that meaning would not only have yielded to Filmer's contention of the natural authority of the head of the family to apportion shares to individuals, but would also have contradicted his own idea of such original abundance that there was no injury to others by individual ownership and consequently no justification of any collective ownership that might obstruct free individual ownership. Locke's word "common" meant, not common ownership, but common opportunity, universal in extent by reason of abundance.

This idea of abundance is the presupposition of his idea of a natural right of property in "meat, drink and subsistence". His natural right of property does not arise from scarcity, but from abundance. Any individual can take what he needs from that abundance of God's gifts without taking it from anybody else, either by exchange or conquest.

Upon whom, then, rests the correlative duty not to interfere with one's access to that which is so abundant that no conflict or competition can arise for exclusive possession of it? If it is as abundant as air or sunlight, then the idea of a right is meaningless, for there is no probability that any person will attempt to exclude any other from using as much of it as he needs.

Not, this is also Locke's idea of meat, drink, and subsistence. God in the original state of nature, had given them in such abundance that no person is compelled to ask consent of any other person to obtain access thereto. All that one needs to do is to take what he needs. But, in the case of meat, drink, and subsistence, this taking is Labor, and Labor is not merely manual labor, it is also intelligence. Rational labor gives a title to what one takes from nature's abundance, which, because it is abundant, does not deprive any other person of what he also may wish to take from that abundance. "God who hath given the world to men in common hath given them reason to make use of it to the best of life and convenience. The earth, and all that is therein, is given to men for the support and comfort of their being...And though all the fruits it naturally produces, and beasts it feeds, belong to mankind in common, as they are produced by the spontaneous hand of nature; and nobody has originally a private dominion, exclusive of the rest of mankind, in any of them, as they are thus in their natural state; yet being for the use of men, there must of necessity be a means to appropriate them some way or other, before they can be of any use, or at all beneficial to any particular man. The fruit, or venison, which nourishes the wild Indian, who knows no inclosure, and is still a tenant in common, must be his, and so his, i.e., a part of him, that another can no longer have any right to it, before it can do him any good for the support of his life. Though the earth, and all inferior creatures be common to all men, yet every man has a property in his own person: this nobody has any right to but himself. The labour of his body, and the work of his hands, we may say, are his. Whatsoever then, he removes out of the state that nature hath

provided, and left in, he hath mixed his labor with, and joined to it something that is his own, and thereby makes it his own property. It being by him removed from the common state nature hath placed it in, it hath by this labor something annexed to it, that excludes the common right of other men. For this labour, being the unquestionable property of the labourer, no man but he can have a right to that which is once joined to it, at least where there is enough and as good left in common for others." [1]

Thus Locke prepared the way for Smith, Ricardo, Proudhon and Marx. Locke's idea of nature's abundance is also his presupposition of the natural right of liberty. "Every man has a property in his own person: this nobody has any right to but himself." Thus his idea of labor is not merely manual labor and rational labor, and not merely the idea of productivity -- it is also the idea of freedom. The laborer has a natural right to do as he pleases with his own person, and every other person rests under the duty to let him alone while he is taking his meat, drink and subsistence from nature's unlimited supplies. Locke's Labor is not slave labor -- it is Free Labor, and this free labor is working on Free Land.

At the time of Cromwell's victorious army the Diggers and other opponents of enclosures of the common lands by adjoining landlords had based their claims to occupy the common lands on the artificial scarcity of opportunities to labor. Locke based his advocacy of enclosures on the natural abundance of land, the productivity of private property. "He who appropriates land to

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1) Treatise on Government, book II, chap 5

himself by his labour, does not lessen but increase the common stock of mankind; for the provisions serving to the support of human life, produced by one acre of enclosed and cultivated land, are (to speak much within compass) ten times more than those which are yeilded by an acre of land of an equal richness lying waste in common. And, therefore, he that encloses land, and has a greater plenty of the conveniences of life from ten acres, than he could have from an hundred left to nature, may truly be said to give ninety acres to mankind: for his labour now supplies him with provisions out of ten acres, more than the product of an hundred lying in common. I have here rated the improved land very low, in making its product but as ten to one, when it is much nearer an hundred to one." [1]

Hence, the productivity of the free laborer on free land is the same thing as the private property of the laborer, and this is both a divine law and a natural law:- "God gave the world to men in common;...he gave it to the use of the industrious and rational...He that has as good left for his improvement, as was already taken up, needed not complain, ought not to meddle with what was already improved by another's labor...God commanded, and his wants forced him to labour. That was his property which could not be taken from him wherever he had fixed it. And hence subduing or cultivating the earth, and having dominion, we see are joined together. The one gave title to the other. So that God, by commanding to subdue, gave authority so far to appropriate: and the condition of human life, which requires labor and materials to work on, necessarily introduces private possessions." [2]

1) Ibid. 5:359
2) Book II, sec. 35

The appropriation of any parcel of land, by improving it did not "prejudice any other man, since there was enough, and as good left; and more than the yet unprovided could use. So that, in effect, there was never the less left for others because of his enclosure for himself; for he that leaves as much as another can make use of, does as good as take nothing at all." [1]

Thus Locke united law and economics in the simple concept of free labor on free land. The question arises how much can such a laborer acquire as private property? Two answers are given by Locke, depending upon what goes before and what comes after the introduction of money.

Before money was introduced the extent of property was "set by the extent of men's labor and the conveniences of life:- no man's labor could subdue, or appropriate all; nor could his enjoyment consume more than a small part...This measure did confine every man's possession to a very moderate proportion". [2] "The same law of nature that does by this means give us property, doe also bound that property too. 'God hath given us all things richly' I Tim. VI, 17 is the voice of reason confirmed by inspiration. But how far has he given it us? To enjoy. As much as any one can make use of to any advantage of life before it spoils, so much he may by his labour fix a property in: whatever is beyond this, is more than his share and belongs to others. Nothing was made by God for man to spoil or destroy. And thus, considering the plenty of natural provisions there was a long time in the world, and the few spenders; and to how small a part of that provision the industry of man could extend itself, and

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1) Ibid, 355, 356, 357
2) Book II, sec. 36

engross it to the prejudice of others; especially keeping within the bounds, set by reason, of what might serve for his use, there could be then little room for quarrels or contentions about property so established." [1]

Thus under-population argument was used against Filmer. If God made Kings the sole proprietors of the earth, a king "may deny all the rest of mankind food, and so at his pleasure starve them, if they will not acknowledge his sovereignty and obey his will." But it is "more reasonable to think that God, who bid mankind increase and multiply, should rather Himself give them all a right to make use of the food and raiment and other conveniences of life, the materials whereof he had so plentifully provided for them, than to make them depend upon the will of a man for their subsistence." [2]

Thus the rule before the introduction of money was, "every man should have as much as he could make use of". But this "same rule of propriety" was not infringed when "larger possessions" were introduced by reason of the "invention of money". Here emerges Locke's fundamental mercantilism, which Quesnay and Adam Smith attacked but did not overthrow. Money is physical money and not credit instruments and money becomes both private wealth and commonwealth.

For, with the "invention of money" it now became possible, without any encroachment on others, for individuals to own far more than they could subdue by their own individual labor. By "tacit agreement", a "little piece of yellow metal, which would keep without wasting or decay, should be worth a great piece of

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1) Book II, sec. 31
2) Treatise on Government, book II, sec. 41

flesh, or a whole heap of corn". If he kept other commodities in large quantities he "wasted the common stock" because they "perished uselessly in his hands". But if he exchanged them for money or similar durable things, he gave away a part so that it perished not uselessly in his possession "and at the same time he might heap as much of these durable things as he pleased" and could not injure anybody, "the exceeding of the bounds of his just property not lying in the largeness of his possessions, but the perishing of anything uselessly in it". The significance of money to the mercantilist Locke was its immortality. For, he says, "thus came in the use of money, some lasting thing that men might keep without spoiling, and that by mutual consent men would take in exchange for the truly useful, but perishable supports of life."

Then by the use of money and commerce large possessions became profitable, "for I ask, what would a man value ten thousand, or an hundred thousand acres of excellent land, cultivated and well stocked too with cattle, in the middle of the inland parts of America, when he had no chance of commerce with other parts of the world, to draw money to him by the sale of the product? It would not be worth the enclosing." And this money thus "received in exchange for the overflow" may be "hoarded up without injury to any one; these metals not spoiling or decaying in the hands of the possessor". Thus private wealth, like the mercantilists' national wealth, is the accumulation of money acquired by exchange of commodities. We shall see what Quesnay and Smith thought of this.

The introduction of money does not, in Locke's estimation, imply the disappearance of free land. Large possessions acquired by commerce and money were no more a reduction of the abundance of land than was the case before money was introduced. This was also Quesnay's and Smith's assumption.

Hence Locke's presupposition, by which labor and the productivity of private property are made the center of his theory of value and government, is the presupposition of abundance of land granted to free men in common by a beneficent creator, with the duty to work and multiply.

The introduction of gold and silver as money made it necessary for Locke to distinguish two kinds of value, each however founded on labor. "Value by tacit agreement or consent" is the value of gold and silver, but "the intrinsic value of things" depends only on "their usefulness to the life of man". Each of these kinds of value is, however, determined by the amount of labor.

The amount of intrinsic value -- that is the quantity of usefulness -- is almost exactly indentical with the amount of labor. "For it is labor that put the difference of value on everything; and let anyone consider what the difference is between an acre of land planted with tobacco, sugar, sown with wheat or barley, and an acre of the same land lying in common, without any upon it, and he will find, that the improvement by labor makes the far greater part of the value. I think it will be but a very modest computation to say, that of the products of the earth useful to the life of man, nine-tenths are the efforts of labor: nay, if we will rightly estimate things as they come to

our use, and cast up the several expences about them, what in them is purely owing to nature, and what to labour, we shall find, that in most of them ninety-nine hundredths are wholly to be put on the account of labor". Quesnay and Smith did not go this far and made nature also productive. McCulloch and Karl Marx returned to Locke.

But gold and silver also have a value determined in amount mainly by the amount of labor. They are indeed "little useful to the life of man in proportion to food, raiment and carriage". They have but a "fantastical imaginary value: Nature has put no such upon them".[1] For this reason their value is not intrinsic but is "only for the consent of men". Yet labor makes "in great part, the measure of their value".[1]

Thus Locke combined in a "complex idea" all that he had demonstrated elsewhere, both in his Essay on the Human Understanding and his Treatises on Government and Toleration, respecting God, Nature, Reason, Property, Equality, Liberty, Happiness, Abundance, Usefulness, and Sin, and personified them in his single idea of Labor. God, Nature and Reason are identical, for although the reasoning is Locke's own reason at work, yet he was given that power of reasoning out of God's own power, and he knows God's reason and can tell what God intended, not as a probability but as a certainty -- a certainty derived not by intuition but by demonstration, like the eternal, timeless truths of mathematics. Those intentions are: all men are treated alike by God who is identical with Nature and eternal Reason; all are to enjoy the happiness of having their wants satisfied from the useful

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1) Book II, sec. 50, 189

qualities of nature's gifts; these useful qualities are given in abundance, such that no competition or dispute need arise respecting exclusive possession of them; this abundance is evidence that God's intentions are beneficent; with this abundance and this equality of treatment every person is equally at liberty to take all that he can use for himself, since enough will then be left for all others; under these conditions of abundance, therefore, life, liberty and property may be designated either natural rights, divine rights, or the rights which reason demonstrates, since reason is a logical justification from the universal benevolence of God. This logic was repeated by Quesnay and Adam Smith.

The question arises, why should there be any need for Labor at all if God, nature and eternal reason furnished everything in abundance, like air, sunlight, meat, drink, and subsistence? Locke's answer, as we have noted, was the Puritan's answer: Sin, Man's disobedience of God's commands was the occasion for condemning him both to the duty to work for a living and the duty of subordination of the one whose sin was greater to the one whose sin was less. He used the same circumstance as Filmer, but interpreted it differently. "The words" at the expulsion from Eden, "are the curse of God upon the woman for having been the first and forwardest in the disobedience...As a helper in the temptation as well as a partner in the transgression, Eve was laid below him, and so he had accidentally a superiority over her for her greater punishment. It would be hard to imagine that God in the same breath, should make him a universal monarch over all mankind, and a day-labourer for his life; turn him out of

Paradise to till the ground, and at the same time advance him to the throne and all the privileges and ease of absolute power. God sets him to work for his living, and seems rather to give him a spade into his hand to subdue the earth, than a sceptre to rule over its inhabitants. In the sweat of thy face, thou shalt eat thy bread". [1]

Thus scarcity is personified as Sin, and the fact of scarcity is identified with the justification of it as the source of property. Sin is pictured as the judgment of an angry God, enforced by the penalty of expulsion from his Paradise of Abundance. [2] A hundred and fifty years afterwards slavery was justified in America as the penalty of sin, [3] and all labor legislation, child labor legislation, and trade unionism in America for a hundred years has been forced to distinguish punishment for sin from coercion by scarcity. [4]

Locke's meaning of Value is therefore a union of ethics, law and economics in the personified concept of Labor, and contains, when reduced to physical measurements, three meanings, all of which exclude a functional concept of scarcity and all of which, with improvements, are found in Adam Smith. These may be summarized as:

1. A physical objective, embodiment of useful qualities -- later to be distinguished as Use-Value -- in that they are useful for production or for consumption, but not functionally useful --

1) Book II, sec. 35
2) Cp. Weber, Max, "Religios Sociologie, Vol I, p 171 ff., on the duty to work contained in the doctrines of Aquinas, Luther, Calvin & Baxter.
3) Sandburg, Life of Lincoln.
4) Cp. Commons & Andrews, Labor Legislation, pp ooo.

utterly to be distinguished as utility -- in that their usefulness does not diminish with an increase of supply nor increase with a diminution of supply. The sum total of these useful qualities is the economic meaning of both commonwealth and private wealth. Private use-value is identical with public use-value.

2. The cause and measure of Value is the free will of the free laborer working on free land, condemned, however, to work and save for the future on account of his wants and his willful disobedience of God's commands, and not on account of scarcity caused by ownership by others, either ownership of his body, or of his opportunities to work, or of the products of his work.

3. The fulfillment of this duty to work and save is, reciprocally, his right to private property in the product of his labor and in the product of all other free laborers obtained from them by commerce and money. His rights are identical with his product and his accumulations.

3. Custom

At a luncheon of eight hundred business men in Philadelphia, in 1922, when the subject of discussion was the relations of employers to their employees, a statement of "Facts" was adopted, in part as follows: "We are all workers; the United States is our union; our allegiance is first to God and then to that union. Our nation is a living expression of belief in our Creator. Liberty is our human right by divine right."

This principle of divine right goes back for its historic authority, to the revelation of John Locke in 1689. I have said above that Locke's idea of God, Nature and Reason was his own idea made eternal, changeless, timeless, like mathematics. It existed, according to his Essay on the Human Understanding, only

in his own mind, with only a probability that it might fit the happenings in the world outside. The question arises, How did it come to exist in his own mind? Similar ideas existed before in the minds of Filmer and the Popes and afterwards in the mind of Quesnay in France, Adam Smith in Scotland, Abraham Lincoln in America, and the employers of Philadelphia. They are all alike as ideas but unlike as meanings.

The ideas came, indeed, from experience, as Locke contended, but the experience from which Locke's ideas obtained their meanings was his experience with what he deemed to be the good customs of those with whom he preferred to associate. So it was with Filmer. Locke was led to the publication of his special form of identification of God, Nature and Reason by the popularity of Filmer's Patriarcha among the clergy and other adherents of King James, wherein God, Nature and Reason had been identified with what Filmer deemed to be the good customs of those with whom he preferred to associate.

Filmer had written his book during the dictatorship of Cromwell,[1] and he had two groups of opponents using similar arguments, against whom he must assert the divine right of King Charles. On the one side the papacy, on the other side the Puritans, had identified God, Nature and Reason with the right of the people to overthrow their kings and to assert, on the one side, the divine right of Popes to govern the kings, and, on the other side, the divine right of property-owners to choose the kings and regulate their behavior by law.

Published twenty years after Cromwell's death.

"Since the time that school divinity began to flourish", wrote Filmer, "there hath been a common opinion maintained, as well by divines as by divers other learned men, which affirms,-

'Mankind is naturally endowed and born with freedom from all subjection, and at liberty to choose what form of government it please, and that the power which any one man hath over others was at first bestowed according to the discretion of the multitude'

"This tenet", says Filmer, "was first hatched in the schools, and hath been fostered by all succeeding Papists for good divinity. The divines, also, of the Reformed Churches have entertained it, and the common people everywhere tenderly embrace it as being the most plausible to flesh and blood, for that it prodigally distributes a portion of liberty to the meanest of the multitude who magnify liberty as if the height of human felicity were only to be found in it, never remembering that the desire for liberty was the first cause of the fall of Adam." [1]

Filmer then answers at length "the subtle schoolmen", especially Cardinal Bellarmine and the Jesuit, Suarez, "who to be sure to thrust down the king below the pope, thought it the safest course to advance the people above the king, that so the papal power might take the place of the regal". But this doctrine of theirs "contradicts the doctrine of the Holy Scriptures, the constant practice of all ancient monarchies, and the very principles of the law of nature. It is hard to say whether it be more erroneous in divinity or dangerous in policy," for it is the doctrine of the "natural liberty and equality of mankind" on which is founded "the whole fabric of this vast engine of popular sedition".

The doctrine of the divine right of kings, which Filmer supported, was older , indeed, than the opposing doctrine, but Filmer was the first to found it, as Figgis points out, not on the former notion of divine ordinance, nor on quotations from Scripture, but on human nature as formed by the Creator for existence in society.[2] Thus he identified divine law with the law

1) Patriarcha, chap 7
2) Figgis, op. cit. 197 ff

both of nature and of human nature, and the divine right of kings became the natural right of kings. Quesnay did the same for landlords and kings, and Locke and Smith for manufacturers. But Filmer had a different meaning of nature.

The basic fact of human nature, Filmer said, is not equality and liberty, but heredity and subjection. Babies are begotten by fathers, whereby they fall immediately under the absolute paternal power of the father to do with them as he pleases in all matters of life, death, liberty, and property. Whatever they have of their own is obtained by grace and not by right. Their natural condition is slavery, and they may be exposed, as in Rome, or sold, as in many historic cases of primitive society cited by Filmer, without any punishment imposed upon the father for so doing. But if the father did otherwise and preserved his children, it was not because nature imposed the duty but because he loved his children.

The same is true of a commonwealth, as it is of a family. There is but one father of a commonwealth as there is but one father of a family. Filmer's "whole argument depends on the identification of the Kingdom with the family, and of royal power with paternal power."[1] He took this metaphor seriously. It was, as Figgis says, "far more substantial than the ordinary hotch-potch of quotations from Scripture", and "the popularity of the book is further evidence that the idea came to most men with the force of a discovery".[2]

The discovery was the identification of God with Nature and Reason, and the identification of Nature and Reason with the primitive customs of ancient families, tribes and nations, as well

1) Figgis, 197 2) Ibid, 199

as the contemporary customs of the Kings of England and the adherents of the royal cause.

Historically, Filmer was more nearly correct than Locke. The common law of England was, as he rightly says, not merely a "common custom", because, "for every custom there was a time when it was no custom, and the first precedent we now have, had no precedent when it began; when every custom began, there was something else than custom that made it lawful, or else the beginning of all customs were unlawful. Customs at first became lawful only by some superior which did either command or consent unto their beginning...The common law itself, or common customs of this land, were originally the laws and commands of kings at first unwritten." And the judges who built up the common law did "all receive authority from the King in his right and name to give sentence according to the rules and precedents of ancient times".[1] Filmer gives several citations.

So also with statute law, "The king is the sole immediate author, corrector, and moderator of them also." Parliaments are called and dismissed by the king at his will. They were not founded on "the usage of any natural liberty of the people; for all these liberties that are claimed in parliament are the liberties of grace from the king and not the liberties of nature to the people; for if the liberty were natural, it would give power to the multitude to assemble themselves when and where they please, to bestow sovereignty, and by factions, to limit and direct the exercise thereof...The people cannot assemble themselves, but the king, by his writs, calls them to what place he pleases, and then

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1) Patriarcha, chap 3, 39

again scatters them with his breath at an instant, without any other cause showed than his will." And the statute laws are not made by parliament but "by the King alone, at the rogation of the people."[1]

All this is as reason says it should be, for otherwise the commonwealth is broken in pieces by sedition and civil war. "Although a king do frame all his actionsto be according to the laws, yet he is not bound thereto but at his good will and for good example, or so far forth as the general law of the safety of the commonwealth doth naturally bind him; for in such sort only positive laws may be said to bind the king, not by being positive, but as they are naturally the best or only means for the preservation of the commonwealth. By this means are all kings, even tyrants and conquerors, bound to preserve the lands, goods, liberties, and lives of all their subjects, not by any municipal law of the land, so much as the natural law of a father, which binds them to ratify the acts of their forefathers and predecessors in things necessary for the public good of their subjects". [2]

Thus Filmer, equally with Locke, is the prophet of the manufacturers of Philadelphia. God, Nature and Reason all agree and are identical in establishing a divine and natural right of kings according to what are deemed to be the practices, good or bad, of British kings and all kings from Adam to Charles.

Filmer evidently exposed the divine right of kings naked and helpless before the nimble mind of Locke, who playfully tossed up and down his contradictory meanings of words and events. Filmer

1) Ibid, secs. 11-16
2) Ibid, chap 3,5,6.

importance for the theory, says Figgis, was "indeed great" for "he deserves to be remembered not so much as the most perfect exponent of the theory as the herald of its decadence." [1] His was exactly the kind of absurdity looked for by the clever author of the Essay on Human Understanding in order to convert the divine right of kings into the divine right of property owners. But Locke's revision was the less absurd only because he spoke for the victorious party, Filmer for the defeated party.

Exactly like Filmer, he identified God, Nature and Reason, but the meaning was different, for the customs out of which he constructed his meanings were the victorious customs of the farmers, manufacturers and merchants of 1689, whereas Filmer's were the decadent customs of primitive tribes, ancient civilizations, papal adherents, and the defeated customs of British kings, feudal lords and royal adherents.

For Custom is the mere repetition, duplication, and variability of practices and transactions. No repetition is exactly the same as its predecessor, and no duplication is exactly the same as its contemporary. Hence, there is always a variability of customs in successive times and at the same time. These variations in the course of history introduce new customs as variables, or as alternatives, of preceding or contemporary customs, and there is always a decadence, or even violent elimination, of old customs or competing customs, giving way to the new or different ones. Thus there is a continual selection of customs going on, and consequently there is a survival of customs fitted to the changing economic conditions and the changing political and

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1) Figgis, 150

economic dominance. Since this occurs by operation of the human will, it is much like the artificial selection of Darwin's demonstration, applicable, however, to practices and transactions suited to the changing conditions, instead of the structures and functions of living organisms.

This analogy between the evolution of species and the evolution of customs, both by artificial selection, is close enough to warrant the assertion that there is a similar force at work which we name Willingness, both conscious and habitual. Customs cannot be changed radically or suddenly, since they arise from the most elementary fact of living creatures, Habit, which is the mere repetition of acts found by experience to be preservative of life, enjoyment, and survival in the struggles of competition. This repetition goes from one generation to another, such that custom is analogous to heredity.

But custom is more than habit. It is the social environment that creates habit. We do not start as isolated individuals-- we start in infancy with discipline and obedience, and we continue as members of concerns already going, so that conformity to repeated and duplicated practices, which is all that is meant by going concerns, is the only way to obtain life, liberty and property with ease, safety, and consent. Neither do we start or continue as intelligent beings, pre-supposed by Locke's original state of nature -- we start and continue by repetition, routine, monotony -- in short by custom. The intellect itself is both a repetition of action, memory and expectation, and an imitation, or rather, duplication of the acts, memories, and expectations of those upon whom we depend for life, liberty and property.

If there is a feeling that keeps these repetitions and duplications agoing, it may be described as the feelings of Familiarity and Good Standing. If these repetitions and expectations are found to be quite invariable, and therefore highly familiar, and if they are found to afford a good social standing that gives security of beneficial expectations, then they are likely to be personified as a kind of command issued before the event, whereas they are, as far as we know from experience, only an expectation that similar beneficial behavior will be repeated. This personification of good customs was evidently the mental process of Filmer and Locke, who pictured the repetitions of physical nature and human nature, with which they were familiar and felt secure, as an eternal, timeless, unchangeable law of Nature, God, and Reason.

Yet, they are not unchangeable. They change with changes in economic and political conditions. The customs with which both Filmer and Locke were familiar were the repeated practices and transactions of landlords, tenants, kings, known as the feudal system in its period of decadence, and the practices and transactions of merchants, master workers, farmers, in their then period of expansion through commerce. The customs which seemed natural to Locke, were, however, very recent in history, though they were older than Locke himself.

Thus the enforcement of voluntary contracts by the King's courts was hardly a hundred and fifty years old, yet Locke projectdd the practice back to the origin of society and founded upon it the obligation to obey the government which had been set up in the "original contract".[1]

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1) Book II, sec 97, 102

The judicial practice of reading into the behavior of parties an implied legal contract, arising out of what the court might assume by their acts to be the intentions of the parties, was likewise of common law origin, but Locke, making, as he says, "the common distinction of an express and a tacit consent",[1] founded upon it his doctrine that people in primitive times were supposed to make enforcable contracts similar to those in his own time. In general, Locke's doctrine of tacit consent, upon which much of his Treatise is founded,[2] is nothing but custom. All customs, from the most primitive times, even slavery, may be interpreted as a practice of tacit consent, but Locke drew the line at those tacit consents which were to him familiar and deemed beneficial among the customs of Englishmen during his lifetime.

The inheritance of property by children, according to the custom of Englishmen, was a natural right of children "and where the practice is universal, it is reasonable to think the cause is natural".[3]

The subjection of women to their husbands, as then practiced in England, was founded on God's punishment of Eve, and on "the laws of mankind and customs of nations", so that there is a "foundation in nature for it".[4] Her subjection was a divine and natural duty correlative to the husband's right, because familiar and beneficial in Locke's opinion. He objected only to the attempt of Filmer to apply the "sanctity of custom" to "a political power of life and death over her" which does not follow rationally from the sanctity of a "conjugal power" of property over her.[5]

1) Book II, sec. 119
2) Book II, sec 15,119,120
3) Book I, sec. 88
4) Book I, sec. 47
5) Book I, sec 48

Most important of all was the custom of private property, including in its meaning, "lives, liberties and estates", as practiced in the common law of 1689. Yet property exists before the organization of society, and "the great and chief end, therefore, of men's uniting into commonwealths, and putting themselves under government, is the preservation of their property".[1]

If customs change, or conditions change, then a choice must be made between customs and it is a conflict of reason and self-interest that determines the choice. Good customs should be selected and bad ones rejected. Speaking of the "rotten burroughs" represented in the British parliament, he says: "Things in this world are in so constant a flux, that nothing remains long the same...But things not always changing equally, and private interest often keeping up customs and privileges, when reasons for them are ceased...To what gross absurdities the following of custom, when reason has left it, may lead", may be seen, he said, in the unequal representation of rotten boroughs in parliament.[2] This has happened, since Locke's time, to all the customs he thought were divine, natural and eternal. They have become more or less rotten.

The practices which are lacking in "a state of nature" for the preservation of property are those which the common law of England had provided, in the time of Locke, after several centuries of slow selection of what were deemed, at the time, to be good practices. And Locke's description of "a state of nature" is exactly a state where these customs are wanting but the participants are rational beings who know about them and proceed to organize a commonwealth and get them.

1) Book II, sec. 123, 124
2) Book II, sec. 157

The practices thus wanted but not found in the state of nature were, according to Locke, first, "an established, settled, and known law, received and allowed by common consent to be the standard of right and wrong, and the common measure to decide all controversies between them: for though the law of nature be plain and intelligible to all rational creatures; yet men being biased by their interest, as well as ignorant for want of studying it, are not apt to allow of it as a law binding upon them in the application of it to their particular case."

"Secondly, in the state of nature there wants a known and indifferent judge, with authority to determine all differences according to the established law;- for every one in that state being both judge and executive of the law of nature, men being partial to themselves, passion and revenge is very apt to carry them too far, and with too much heat, in their own cases; as well as negligence and unconcernedness, to make them too remiss in other men's."

"Thirdly, in the state of nature there often wants power to back and support the sentence when right, and to give it due execution. They, who by an injustice offend, will seldom fail, where they are able, by force to make good their injustice; and resistence many times makes the punishment dangerous and frequently destructive to those who attempt it."[1]

Thus the state of nature was that original state of isolated yet intellectual beings like Locke, who did not have the Common Law of England, an Independent Judiciary, or a Sheriff and the posse comitatus; yet they knew they ought to have them.

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1) Book II, sec. 124

"The "state of war", on the contrary, is the state "out under the ties of the common law of reason", "where there is no common judge with authority", and where one may destroy a man "for the same reason that he may kill a wolf or a lion".[1] In the state of nature, there is no appeal to an impartial earthly judge, and this is true also of an unjust judge who refuses to obey the law. "Princes owe subjection to the laws of God and Nature."[2]

So that there remains, in either case, only an "appeal to heaven", whereby the effort of all parties to enforce this divine and natural law is nothing else than the "state of war".[3] The state of nature becomes the state of war, in the absence of an independent, impartial judiciary, or the absence of an executive obedient to the law. What "puts men out of a state of nature into that of a commonwealth" is "the setting up a judge on earth".[4] Thus Locke justified the Revolution of 1689, and puts the burden of proof on the defeated king. The use of force by the king, without the authority of natural and divine law, "always puts him that uses it into a state of war, as the agressor, and renders him liable to be treated accordingly".[5] "The people have no other remedy in this, as in all other cases where they have no judge on earth, but to appeal to heaven."[6]

It is this "state of nature" and not the "state of war" that is the origin of government. For the state of nature is a state of voluntary agreement without coercion. Herein Locke reversed English history but justified the revolution of 1689 and the Amer-

1) Book II, chaps 2,3
2) Book II, sec 195
3) Treatise, Book II, sec. 19,20
4) Book II, sec. 89
5) Book II, sec. 155
6) Sec. 168

'can Civil War which abolished slavery. "Though governments can originally have no other rise than that before-mentioned, nor politics be founded on anything but the consent of the people; yet such have been the disorders ambition has filled with world with, that in the noise of war, which makes so great a part of the history of mankind, this consent is little taken notice of: They therefore may have mistaken the force of arms for the consent of the people, and reckoned conquest as one of the originals of government. But conquest is as far from setting up any government, as demolishing an house is from building a new one in its place. Indeed, it often makes way for a new frame of a commonwealth, by destroying the former; but without the consent of the people, can never erect a new one." [1] Thus Locke forgot William the Conqueror but Filmer had remembered him.

Locke searched for historical examples of his original state of nature, seeing that the objection was made that people are born under governments already existing, and could not have come together voluntarily out of a preceding state of separate individual existence. He mentions the beginnings of Rome and Venice and the Indian tribes of America.[2] These are doubtful.

The nearest recorded approach to Locke's state of nature was in the Mining Camps of California during the first year and a half of the gold discoveries, as described by Shinn.[3] During these years, the miners had no government and no crimes; they had equality of claims staked off for diggings; they had individual liberty to acquire all the gold they could obtain by their own labor; they

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1) Book II, Sec. 175
2) Book II, Chap 8
3) Shinn, Mining Camps (1889)

had perfect private property in what they might obtain, and common property in the sense of public lands owned by the government and protected against the original owners, the Indians. They were the Diggers of Cromwell's time, without the ejections by Cromwell's troops.

If we look for the explanation of their state of nature, we find that it was exactly John Locke's state of abundance. A gold digger could earn by his own labor as much as a thousand dollars a day in gold. Newcomers could take up claims to the extent of their labor power, alongside earlier claims. No one interfered with another's claim, since there was abundance for all. No one needed to work for wages and thus each one was his own laborer, employer, landlord and investor, just as John Locke assumed in 1689. No crimes, trespasses, or thefts occurred because, what was the use when more money could be made by digging? This period passed with the inrush of gold seekers the second year. Then thefts, crimes, trespasses, courts, executives and hangings emerged, and the state of nature became the state of California.

Thus the fallacy of Locke's reasoning was a fallacy of Inverted Sequence. He reversed the time factor. He projected into primitive times intellectual beings like himself, whereas these beings were the outcome of the customs of Englishmen in 1689. He projected backward the practices, to which he was accustomed and wished to see perpetuated, into an eternal reason binding henceforth without change. What he figured to be a command issued in the past was an expectation of repetition in the future. Thus he transposed to an original state of nature the voluntary agreements which centuries of strong government and a king's judiciary had

made the common law of England. He mentally constructed for a period of scarcity and violence the ideas belonging to a period of abundance and peace.

On the other hand, Locke appreciated the true historical process of custom when he rejected customs that appeared to him to have outlived their rational basis and to be merely the perpetuation of unequal privileges. Reason had left such customs because they do not look good. Good customs are divine, natural, eternal; bad customs are human, unnatural, temporary.

Yet, what Locke had said of "rotten boroughs" is true of all customs. They begin as adaptations of human behavior to new conditions, and they survive after the "reason of them" has disappeared. And what Filmer said of the common law is also true. Customs do not become law until the courts have decided disputes in conformity to them. They are "natural" in the sense of repetition, variability and security of expectations -- not in the sense of unchangeable commands issued in the infinite past according to what the present individual thinks ought to have been issued. The same is true of Locke's idea of the sanctity of property. By using the term Nature, he, like the manufacturers of Philadelphia, can state liberty and property as a "fact", whereas they are only his justification of what ought to be. Property is, in fact, only a repetition of managerial, bargaining and judicial transactions, as variable as changing conditions and changing meanings, and not a divine unchanging command issued in conformity to what present beneficiaries now think ought to be made unchangeable. The meaning of property has greatly changed from the time when Locke personified the customs of the frugal, laborious farmers

and hand workers as a divine command of unchanging nature and reason, to the time when property is absentee control over laborers and consumers throughout the world by a legalized credit and corporate system of management. Locke's appeal to heaven was his justification of the Revolution of 1689 against the divine right of Kings over their subjects. The Philadelphia manufacturers' appeal to heaven in 1922 is their justification of a divine right of property owners over their employees.

This mental tool is not a good one for research of economic conditions, though it may be good for propaganda. It is a kind of oath, sworn even by those who are atheists, that, in the name of God, what they think is a fact <u>is</u> a fact and prevails over all research, investigation and the opinions of others.

John Locke united ina personification of Labor the three subjects afterwards separated, namely, Law, Ethics and Economics. We shall reach a similar union of Law, Ethics and Economics, not, however, in terms of Locke's personified Labor, but in terms of that expected repetition of managerial, bargaining and judicial transactions which, in American law and economics, is a Going Concern.

Chapter III

QUESNAY

While Locke started with the Individual, Quesnay started with the Commodity. The individual now became a kind of steering wheel for the Commodity, guiding it along the same beneficent highway of God, Nature, Reason and Abundance. But Quesnay found something different from Locke's finding of what interfered with this pre-ordained Happiness -- not Locke's absolute monarch but Locke's Mercantilism. Sovereigns should be absolute -- that was a natural and divine for Quesnay as for Filmer. But they should guide themselves by the natural order implanted by God in Man's Reason, and not by tariffs, bounties, and privileges for the protection of merchants and manufacturers.

Francois Quesnay, founder of the Physiocratic School, known to France and Adam Smith as "The Oeconomists"was, even more than Locke, an originator of physical analogies, guided by reason. Locke had based his economics on Labor, the bounty of nature, and the Accumulation of Physical Money. Quesnay omitted Labor and based his on the bounty of Nature and the Flow of Money. Smith afterwards based his on the Division of Labor. Modern Economics comes back to money, not as a physical commodity but as a repetition of credit transactions. Accumulation of physical money is the ultimate fallacy of Mercantilism. Quesnay exposed it by reducing it to a flow instead of an accumulation.

The astonishing effect which Quesnay's Tableau Economique had upon the intellectual life of France for twenty years after

1758, can be likened only to the effect of Darwin's Origin of Species on the scientific world after 1859. The elder Mirabeau exalted Quesnay's discovery to the level of the other two greatest discoveries of civilization, Writing and Money.[1] Where Darwin afterwards substituted a blind mechanism of heredity, variation, struggle, natural selection and survival for the will of God, Quesnay substituted a bountiful mechanism of nature for the will of an absolute monarchy. Where mercantilism sought to control prices arbitrarily in order to accumulate money, Quesnay substituted a flow of money in one direction and a flow of commodities in the opposite direction. Adam Smith afterwards used a similar analogy. Money was his "great wheel of circulation."

Quesnay was both a physician at the court of Louis XV and a landlord. He had written an "animal economy" twenty years before and now he wrote on the economy of an agriculture kingdom.[2] He had a physiological science to work with, which Harvey had created in 1628 when he demonstrated the circulation of the blood. It was that science which would now explain, as a branch of physics, the production and circulation of wealth. For wealth is to the social organism what blood is to the animal organism. The social organism -- that is, an agriculture kingdom-- like the animal organism, takes up food, textiles, timber, minerals from the soil, from the air, from the sunshine and rain, manipulates and digests them, then circulates them to all parts of the social body. Each part of

1. Smith, Adam, Wealth of Nations, Cannan ed. 1, 177; Denis, Hector Histoire des Systemes Economiques et Socialistes, 1:82(1909).
2. Quesnay, Francois, Essai Physique sur l'Economique (1758); Maximes Generales du Government Economiques d'un Royaume Agricole (1760) Citations to Oncken's edition of Quesnay's writings.

the body takes out what it needs for sustenance, and the whole is continually renewed from the earth. Quesnay's theory is aptly named by Bohm-Bawerk, when speaking of its use by Turgot, a Fructification theory of Value.[1] It was a theory of the Life Forces in which production of wealth is augmentation of the volume of vital force, and "circulation" is not productive since it merely carries that volume of energy to different members of the system, consuming much of it on the way. And neither are these other members productive since they either consume it outright and send none of it back into circulation, or they send back only the equivalent of what they consume. They cannaot send more and hence cannot produce a surplus.

It is only Life Force that is productive, since by its energy not only is something reproduced in the same volume as the original but the volume is augmented. This augmentation is a surplus, un produit net; and it is this augmentation that is productive, while the reproduction of the same volume is unproductive. Other forces, including the labor of man, only reproduce, in a different form, the equivalent of what they consume. Vital force does that, but it also produces a surplus of its own kind of energy. Other forces are reproductive. Vital force is productive. Thus reproduction is sterility, production is vitality. Hence only the

1. Bohm-Bawerk. Capital and Interest, 000. Turgot accounted for the productivity of mines by a geological process. "The land produces fruit anually but a mine produces no fruit. The mine itself is a garnered fruit." Cited by Gide and Rist, History of Economic Doctrines (tr)14. Quesnay held that not the agriculturists, but the subsistence of the agriculturists, looked upon as circulating capital, was productive. See. below, p.

cultivators of the soil are productive; all merchants, artisans, manufacturers and intellectuals are sterile; not because the cultivators alone produce use-values, Quesnay conceded that others did that -- but these use-values were only changes in the form of things not enlargement of their volume. And the enlargement of volume was the enlargement of exchange-value,

But it turns out that the cultivators of the soil themselves are productive only by courtesy, in that they only assist the really productive vital forces o nature which alone have power to enlarge the volume of things containing their own life force. Cultivators, in reality, are sterile, because they do not add to the volume of things. They simply put the seed in the ground and carry the feed to the livestock. Nature does the rest. Their own food and sustenance, is productive, but their labor is not productive. Only that force which we call Life, whether in many or nature, is productive, because it alone can enlarge a seed of wheat into 50 seeds, a calf into a cow, a baby into a farm hand. It is this enlargement of bulk that consitutes Quesnay's famous "net product" of agriculture -- a net product not of use-value, but of exchange-value.

It must be noted that, not only at the time of Quesnay, but even from primitive times to the present, the prevailing concept of Value has been that of Power, Strength, Valor, Vigor, Weight, Influence, Force, Validity. The term exchange-value is therefore the extension of this meaning to commerce. Exchange value is

1. Citation, Bohm-Bawerk, Ibid., 000.

Power-in-Exchange, Purchasing Power, Power to Command the commodit moditics and services of others. When the business man or common man says, "What is my automobile worth? what is its real value?" he thinks, not of its power to command, especially money, in exchange. All mankind, in commercialized nations are intuitive mercantilists. It was the great service of Quesnay and his followers, the Physical Economists, and, indeed, the most difficult and never-ending service of economic theory, to get behind this common sense, empirical, intuitive thinking, and to reveal the substance of Real Value, in Exchange to be, not Power to Command Money in Exchange, but Power to Command Commodities and Services in Exchange. Money is only a social instrument for doing it. This revelation is the beginning of economic wisdom. But prior to Quesnay, nobody had ever been able to offer a physical explanation of it. The church and moralists declaimed against Money, and there was a prejudice against money-dealers and money-makers, and the concepts of usefulness, use-value, welfare or service were set up as ethical contrasts to money. But nobody had been able to show, in physical quantitative terms, the mechanism needed for reasoning out the hidden nature of exchange-value. Hence the enthusiasm over Quesnay's Tableau economique.

Quesnay eleiminated use-values, as being merely the personal uses which indididuals might make of the physical things which they took out of circulation, and focussed attention on exchange-values as power to command, not money, but commodities, in exchange. A nation's wealth is augmented by increasing the quantity of physical things having this power-in-exchange.

Whence comes this augmentation of Power? It comes from a bountiful force of nature which augments the quantities of material out of which food, clothing, shelter are afterwards manufactured. It is this augmentation of materials by the forces of nature that augments the volume of exchange values and thus augments the power of the nation. Value is identical with exchange-value, a power in exchange, as the common sense of everybody agreed, but the source of this power was agriculture and not manufactures or merchandising.

Why was it, then, that the agriculture of France was so depressed when it was only through agriculture that this bountiful energy could produce abundance of material, food, clothing and shelter for mankind? The answer was the artificial scarcity imposed by the policy of Mercantilism which did not permit exchange-value to conform to the benevolent enlargement of value. The mercantilist policy of France was depressing agriculture, owing to the special privileges of marketing given by the government to merchants and manufactures, under the mistaken notion that agricultural products should be furnished cheaply to them in order that they might sell manufactured products abroad and bring home silver in exchange. Nature is the beneficent force which enlarges the life of the nation. She multiplies her products, and what the cultivator does is only to unite his life with hers and restore what he has taken from her. Everything, therefore, taken from the cultivators and consumed by merchants and manufacturers who merely transport and manipulate the material but do not enlarge its bulk, is so much sheer loss, even though, in doing so, they add to the utility of the material by changing its kind, form and place.

They are, indeed, also productive insofar as they send back implements, fertilizers and food to help out the cultivators, but "sterile" to the extent of what they consume or send on to others equally sterile also to consume.

Both the cultivators and merchants and manufacturers must have a minimum of subsistence, which was indeed all that the cultivators (peasants) were getting at that time; but, while the subsistence of the sterile classes contributes nothing to restore the soil, the subsistence of the cultivators does, and is therefore productive. Thus that which is productive is that which goes back to agriculture in the form of circulating wealth (avances annuelles) such as see, manure, the restoration of wear and tear and depreciation of machinery, and the subsistence of the peasants, while the fixed products were of two kinds, avances primitives of the peasant cultivators, such as seed, machinery and implements, and avances foncières, or fixed improvements of the landlord, such as fences, drains, buildings.

The owners of these fixed products were, indeed, entitled to interest, but not because their fixed improvements as such were productive. The only part of fixed improvements which created a net product was that part distinguished as wear and tear, depreciation or depletion, and which, therefore, by definition, was to be classed along with seeds, fertilizers and sustensance of cultivators, as circulating wealth. These circulating objects alone produced a net product over and above their own quantity, by virtue of going in to the cultivation of the soil, and it was out of this net product that the proprietors and the monarch obtained their revenues. An increase in the number of the sterile classes

reduces by just that much net product for the succeeding years, because it takes out of the circulation that which might have gone back to the soil as circulating products.[1] In short, Quesnay's Tableau économique, is substantially that of American farmers who complain that the middlement, manufacturers and urban residents take so much from their product that they cannot keep up the improvements and fertility of the soil and must eventually abandon their farms and move to the cities.

Quesnay's difficulty arose in that he employed these physical concepts pertaining to conservation of natural resources as identical with scarcity concepts pertaining to the exchange-value of commodities. He made "wealth" the exchange-value of wealth, or power to command commodities in exchange, excluding however the idea of relative scarcities, and thus started modern economic theory towards the idea of eliminating money, the instrument for measuring scarcity. He got back to a physical barter economy where abundance of goods with high exchange values is the wealth of nations, rather than a Mercantilists' high scarcity and instrument of exchange-- they want commodities, and these commodities are to be obtained in large quantities only when one's own commodities are both abundant and have high exchange value. Money is merely nominal value-- it is an instrument of exchange and measurement by which we can tell whether our own commodities have high exchange-values or not. When Quesnay speaks of "prices" he intends exchange values in terms, not of money, but of other commodities.

1. Hangy, History of Economic Thought, 175,176.

Money is, indeed, a measure of exchange value, but it is especially a means of circulation of commodities. But measurement and circulation do not produce wealth -- they merely accomodate the back flow of commodities at their previously determined exchange-values, in terms of commodities. Thus wealth (richesses) he contended, was not abundance of goods, but abundance of goods at good prices (bon prix)-- that is, not abundance of use-values, but abundance of exchange-values. The savages of Louisiana have abundance of goods(biens) such as water, wood, game, fruits of the earth, etc., but these are not wealth (richesses) except as they acquire exchange-value with France, England, Spain, etc., that is, not until they circulate and bring back other commodities.[1] What the state needs is large quantities of commodities at high exchange values per unit for other commodities, from other people. The nation's net product is not the use-values of commodities -- it is the abundance of exchange values of commodities. The mercantilists believed the power of the state to reside in large quantities of ready money, which required low-exchange values of raw material in order to encourage exports of manufactures and bring in the money through foreign trade. That meant high exchange-value of mondy and low-exchange values for agriculture. But quesnay saw the power of the state residing in large quantities of raw material at high exchange-values in domestic trade, whereby the net product would be increased, for it was out of this that taxes could be paid.

The more these exchange-values follow the "natural order" which is the bountiful order, while in the process of circulation, in that they are not interfered with by arbitrary restraints and privileges granted by government which depress farm prices for the sake of manufacturers and merchants, then the more profitable are the nation's agricultural products in both foreign and domestic trade; the more do they enable the farmer to restore the fertility of the soil and make agriculture successful, on which population and wages of all classes depend; and the more do they increase the revenue of the soverign and the proprietors and thus augment the power of the state by purchasing farm products at low prices, in order, by the resulting low prices of manufactured products, to bring in gold and silver, ho would increase the state's power by selling farm products at high prices. The commercial classes buy of the farmers at low prices and sell at high prices -- their interests are opposed to those of an agricultural nation whose proprietors should sell at high prices in order to enlarge agriculture and thereby enlarge the very flow of products on which the permanent gains of commerce itself depend.[1] One should not depress the exchange-value of provisions and merchandise within the kingdon, in order to furnish cheap raw materials for commerce,[2] for that is ultimately disadvantageous in trading with foreigners. If exchange-values are

1. Quesnay, Ibid., 322-323,344. 2) Gide and Rist, p. 29.
2. Quesnay, Ibid., 335. Gide and Rist 14, This is not a paradox if nature is benevolent and scarcity is the artificial scarcity imposed by government.

high, so is revenue. And this explains Quesnay's apparent paradox: "Abundance without exchange-value is not wealth. Scarcity with high prices is poverty. Abundance with high prices is opulence."[1] This is not a paradox if nature if bountiful and if scarcity is the artificial scarcity imposed by government.

Nature, or rather "the natural order", which is the bountiful order of benevolence, if left to itself will produce high exchange values (bon prix) since the "natural order" is the self-interest of exch person guided by the same benevolent order that guides agriculture, and this means that each person chooses those lines of action wherein Nature had previously provided high exchange-values and abundance.

Eventually Quesnay saw the predicament. He had eliminated the mercantilist fallacy of a foreign balance of trade designed to increase the nation's supply of precious metals, but had fallen into the fallacy of increasing the supply of agricultural commodities without reducing their exchange-value. This predicament led him, in 1765, seven years after his Tableau économique, to a practical abandoment of his earlier distinction between productive and sterile classes.

For, evidently, from the standpoint of conservation of resources, the greater the abundance of agricultural products the greater the wealth of the nation, since the quantitiy of use-values of those bountiful products, rather than their use-values, then the greater their abundance compared with that of

1. See 2. previous page.

other products, the lower is their exchange value, and the less is the wealth of the nation. In one case wealth means the service of increasing the supply of use-values from others by withholding one's own supply, and thus enlarging its scarcity-value; "conservation" of exchange value is proprietary increase of scarcity-value. So when, in 1765, Quesnay faced this predicament, he modified his distinction between the sterile and productive classes The "sterile" classes, he now said, are not sterile unless they produce more products than the agriculturists will take at a favorable price (bon prix). But they are sterile insofar as they produce more than the farmers will take in exchange. In that case the excess product is "illusory wealth" (une augmentation illusoire des richesses). In other words, defining wealth, not as use-value of commodities, but as their exchange-value, it follows that the sterile classes do produce wealth if they do not produce too much of it.

The same is true of the farmers, Quesnay goes on. If they produce too much raw material for the rest of the nation to buy at favorable exchange values to themselves, they too, are producing, not wealth, but "illusory wealth". Hence, as Quesnay said, the sterile classes are only relatively sterile and not absolutely so, and the productive classes are only relatively productive, depending upon the relative quantities which each produces for exchange with others. Each class is productive if it does not produce more than its proper proportion of the total. And he emphasizes it: "Je dis a proportion des richesses du pays."[1]

1. Quesnay, Ibid., 391-392.

In other words, starting with a definition of productive classes as those who, through the bounty of nature, add a net surplus of physical quantities to the total circulation of commodities, and of sterile classes as those who do not add materials, Quesnay finds, when he squarely faces the difference between material things, which we may name "use-values", and the "scarcity values" of private ownership of these use-values, that what he really meant was that all classes are productive to the extent that the quantities of their use-values are proportioned properly to each other, according to their relative demands and supplies. If ~~you~~ properly proportioned then their products of use-value are real wealth, because they have favorable exchange-values, but if one commodity is oversupplied it becomes "illusory wealth" because it has little or no exchange-value. He shifts from the physical concept of augmenting the flow of physical goods and thus augmenting use-values, to the scaccity concept of the best proportioning of the various quantities of use-values in order to prevent the abundance of some products from reducing their prices and the scarcity of others from raising their prices.

Quesnay, however, insisted on his original definition of sterile classes, and his followers adhered to it, so that his modification in 1765 has escaped, as far as I have been able to discover, the notice of his later critics. His attempted identification of the physical concept of agricultural abundance and high exchange-values was made by asserting that the "natural"

part played by the sterile classes was so small anyhow, that, in a natural and bountiful order of the universe, where government did not favor the sterile classes, the latter would have but little effect on exchange-value and might be disregarded. As though a vice is not a vice if it is a little one! Natural scarcity which is, in fact, proprietary scarcity, may be taken for granted and disregarded as not having any functional importance in determining other values, provided the artificial or collective scarcity of Mercantilism is eliminated. And this follows from the fact that, according to the "natural order", people who have liberty in the acquisition of property prefer manufactures to agriculture anyhow, since its hardships are less and life in towns is preferable to life in the country; so that they would distribute themselves "naturally" in such proper proportions that exchange-values of agricultural products would be high, notwithstanding their abundance, were it not for governmental privileges at the expense of agriculture.(1) Also his reconciliation was effected by saying that what he meant by sterile classes was only that part of such classes as was occupied with luxuries.

Yet the physical and scarcity concepts are contradictory. The physical concept of use-value implies that the quantity of valuable energy embodied in each unit of a commodity does not diminish with an increase in supply. Water quenches thirst, and

1. Quesnay, Ibid., p. 592.

a thousand gallons of water will quench a thousand times as much thirst as one gallon. This is use-value which does not diminish per unit, with an increase in quantity. Likewise with Quesnay's exchange-value. Exchange-value, with him, unless interfered with by artificial or governmental scarcity, was a physical circulation of a predetermined physical force of nature, having power to command other commodities, and it would follow that a million bushels of wheat should have a million times as much exchange-value as one bushel. This extreme case makes the argument absurd, but Quesnay's "natural order" of nature's abundance did not permit extreme cases.

Quesnay's philosophy was discredited by his term "sterile classes ", which was corrected somewhat by Adam Smith, who substituted Division of Labor. Yet his physical concepts of "circulation" and exchange-value were afterwards taken over by Karl Marx. There were two systems of circulatioh of commodities, the great circulation of the arteries which takes the commodities to all parts of the body, and the small circulation of the veins which takes them back to be augmented from the soil The process by which these two circulations pass each other is the process of exchange, in the sense of a double transfer of physical things without change in the physical quantities transferred. Circulation does not add anything, it merely transfers to others what has previously been added from the soil That previous addition was value in the sense of power, the bountiful but hidden force of nature. Circulation, if left to its natural course, merely revealed as exchange value that which had previously been embodied as the bounty of Nature.

Adam Smith, by changing from Nature fot Labor, gave to Quesnay's avances annuelles and avances foncières the name of "capital", and capital was saving in the form of circulating goods, that is, vendible commodities, and the circulation and vendibility of those commodities yielded again a physical concept, exchange-value, but equal to another embodied energy, not the power of nature, but the power of labor.

Quesnay, having acknowledged the discrepancy between physical concepts and scarcity concepts, bridged it, as we have seen, by means of his notion of the "natural order" which would not permit the discrepancy to happen, and it was another branch of this Natural Order that justified the income of the landlords and monarch. Adam Smith took over bodily this branch of Quesnay's Natural Order, but used it to justify the capitalists instead of the landlords or monarch. For, how were the landlords and monarch to be justified in taking interest on their fixed capital (avances foncières) and, indeed, taking the whole of the net product, when it was not their fixed capital, as a whole, that produced a surplus, but only that part of it which "circulated", namely the wear and tear, depreciation and depletion of fixed capital, including the subsistence of cultivators? They might be entitled to take out exactly what they put in, namely, the equivalent of their circulating commodities, including wear and tear just as the peasant cultivators and the sterile classes did. But why should they take interest and the net product also, on account of that part of fixed capital which still remained in their

hands unused and had not passed on either to nature for augmentation, nor into circulation for reproduction? Why should not the cultivators take the whole of the net product and eliminate the landlords, as afterwards happened in the French Revolution when the peasants divided the estates, since it was their subsistence and not the landlord's ownership that produced it?

Quesnay justified the landlords, and also the monarch who took a part of the net product in taxes, by "the natural order" and the "natural right". The cultivators and the sterile classes got the subsistence necessary for their existence from the landlords and monarch. They got the equivalent of what they put in -- that was a natural as any law of physics.[1] But there was another branch of the natural order, the "moral order" which was just as binding by nature as the physical order, and wa, in fact another physical order. It was this that justified the landlords and monarch.

Yet, this was nothing else than the prevailing customs in 1758 of the landlords and monarchs of France . The Physiocratic view of a nation was that of great landed proprietors who also were sovereigns over their subjects. Quesnay did not distinguish sovereignty from private property. He had in mind the France and Germany of 1758, with their feudal estates which were also sovereignities, with their manorial courts and armed officials. The proprietor was sovereign, acting through officials who exercised his power.[2] Nine-tenths of his subjects were agricultural

1. See his justification of the income of the sterile classes as distinguished from the luxurious classes, ibid., 390-391.
2. Gide and Rist, History of Economic Doctrines, 19.

laborers and peasants; others were hand-workers in their little shops, manipulating the wool, leather, pork, which the agricultural laborers turned over to them, or were domestic servants, or merchants, furnished them by the landlords. They were not participants in a commonwealth. The fact that their products were bought and sold, and therefore had exchange-value, did not enlarge the quantity of products. And the soverign proprietors did not get a share because they produced it, but because it was the custom with which Quesnay was familiar. They were the nobility, who, simply because they were noble, were supreme by natural right, Without them nothing could be done, for their ancestors had provided the soil originally, and they themselves furnished security and subsistence to the cultivators as well as to the sterile classes.

What Quesnay wished was, not that the landlords and monarch should be ousted, but that the landlords and monarch, in the disposition of their sovereignty, should follow the "natural order" rather than try to impose their will on the production and circulation of wealth. They held their positions by natural right, but were not obeying the natural order.

For nature was intelligent, benevolent and bountiful. Physical law, said Quesnay, is " the regulated course of all physical events, in the natural order evidently the most advantageous for the human race"; and moral law is "the rule of all human actions in the moral order conforming to the physical order

evidently the most advantageous for the human race." Out of these natural laws proceed natural rights. Natural right, said Quesnay, is "the right which a man has to things fit for his happiness", and justice, or the rule or natural law which determines natural rights, is " a natural and soverign rule recognized by the light of reason, which determines obviously what belongs to self or others."(1)

These definitions of the Natural Order enabled Quesnay to reconcile all the contradictory notions of philosophers regarding natural law, natural rights and natural justice, for his was an adaptable notion of natural rights such as would fit the circumstances of any time and place, but which thereby reduced, "natural rights" to their natural absurdity. Thus the apparently contradictory natural rights of all philosophers were all true, relative to the time and circumstances where they were obviously true. Hence Justinian was right in holding that natural right is that which nature reveals to animals, provided they are animals. So, in a state of isolation, the individual's natural right is whatever he obtains by his own force and intelligence, provided he is isolated; in which case natural right carries no notion of the moral order. Even Hobbes' unlimited right of "all against all" is right, provided it be a state of anarchy. Likewise those are right who say that natural right is that which is general and sovereign provided we are talking about a nature which has a sovereign authority in control of all persons. On the contrary

1. Citation.

those are also right who hold that natural right is not absolute but is limited by tacit and explicit agreements, provided such agreements are customary. Even those were right who denied natural rights in toto, provided they were talking about persons who had no knowledge of natural right. Knowledge is the "light" without which reason cannot see, and the natural order exists only where there is both reason and knowledge. Hence, to Quesnay and the Physiocrats, the fundamental positive law to be enacted by a monarch was that of public and private instruction in the laws of that natural order which is the "light of reason". The greatest crime is that of keeping people in ignorance, for it is knowledge of natural law that guides reason to the maintenance of authority, property, abundance, and the security of landlords and the Boutbon dynasty.

In short, Quesnay's idea of natural law, natural right and natural order was merely the Custom of the time and place, distinguished from the decrees and statutes of sovereignty. Custom was nature, sovereignty was mercantilism. But custom, for Quesnay, became an enlightened sense of fitness, an educated common sense, an obvious intuition, which makes things look natural if they are customary, and unnatural if the state intervenes. Custom is harmony of interests and harmonious proportioning of labor and resources. This harmonious proportioning would follow from the fact of nature's bounty, which if not interfered with by sovereignty would cause individuals to flow into the channels where nature was most bountiful, and not to flow into

other channels where they extracted from circulation more than nature's own proportioning of her bounty, so that not too much of any product should be encouraged by government where nature was niggardly, at the expense of too little of other products where nature was bountiful. In short, the natural order was a good economy, as seen by Quesnay, and the artificial order was the bad economy supported by the Mercantilists.

These natural laws, thus perceived by the light of Reason, had, according to Quesnay, the two qualities of intelligence and benevolence needed to create abundance, since they were laid down by an Intelligent Being for the happiness of man. Hence, they were "immutable, unbreakable, and the best laws possible."(1) Quesnay had in mind, by way of contrast, the positive and therefore artificial laws of the then arbitrary rulers of Europe. These positive laws differed from the natural laws in that they produced scarcity whereas nature produced abundance, and this arose from the circumstance that they might be mistaken, corrupt, coercive, capricious, and therefore violations of natural law, which on the other hand, was immutable, intelligent, benevolent, and bountiful. Consequently these natural laws of the natural order, as felt to be so by an intelligent and benevolent landlord like Quesnay at the Court of Louis in the year of 1758 should be made the magic formula for positive laws, since the latter should be but "the laws of management relative to the natural order the most advantageous to the human race."

1. Ibid., 375.

Thus where Locke had looked on natural law as justifying manufacturers and merchants against kings and landlords, Quesnay saw it justifying kings and landlords against merchants and manufacturers. Each identified God, Nature, Reason and Abundance. They differed respecting the beneficiaries. Forty years after Quesnay, Malthus substituted nature's scarcity for nature's abundance. Sixty years after Quesnay, Ricardo founded the idea of value on labor's power in overcoming the scarcity of nature's resources. Ninety years afterwards, Karl Marx took over Quesnay's circulation, Ricardo's labor, nature's scarcity, and eliminated landlords, monarchs and capitalists. Meanwhile, eighteen years after Quesnay, Adam Smith rejected it in part, and went back to John Locke's theory of Labor.

CHAPTER IV.

HUME AND PEIRCE

SCARCITY .

Hume combined Law, Economics and Ethics on the foundation of Scarcity, Custom and Futurity. Locke had personified the three as Labor, Abundance and Commands of God. The modern successor of Hume is the American pragmatist, Peirce. It is in Hume, too, that we find the that we find the foundations of the modern economics of transactions and going concerns. Adam Smith speaks of him as "by far the most illustrious philosopher and historian of the present age," but Smith rejected his foundations and returned to Locke whom Hume had rejected.

"Reverse, in any considerable circumstance the condition of men," said Hume in 1751; "produce extreme abundance or extreme necessity; implant in the human breast perfect humanity or perfect repaciousness or malice; by rendering justice totally useless, you thereby destroy its essence and suspend its obligation on mankind. ... Few enjoyments are given us from the open and liberal hand of nature; but by art, labor and industry we can extract them in great abundance. Hence the ideas of property become necessary in all civil society. Hence justice derives its usefulness to the public; and hence alone arises its merit and moral obligation."[1]

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1. The Philosophical Works of David Hume, edited by T.H. Green and T.H. Grose, 2:188 (1875, reprint 1898)

By "utility" Hume meant public utility, or the good of society, as a motive which influences the individual by subordinating in himself the motive of self-interest. This idea of Public Utility, which was, for Hume, the sole origin of justice and the sole foundation of its merit, was based on historical relativity. The two historical circumstances whose changes changed the meaning of public utility and the corresponding meaning of justice, were the degree of scarcity and the character of the people. He illustrates these, first by extreme cases, and then by historical induction.

"Let us suppose", he said, "that nature has bestowed on the human race such profuse abundance of all external conveniences, that, without any uncertainty in the event, without any care of industry on our part, every individual finds himself fully provided with whatever his most voracious appetites can want, or luxurious imagination wish or desire...It seems evident, that, in such a happy state, every other social virtue would flourish, and receive tenfold encrease; but the cautious, jealous virtue of justice would never once have been dreamed of... For what purpose make a partition of goods, where everyone has already more than enough? Why give rise to property, where there cannot possibly be any injury? Why call this object mine, when upon the seizing of it by another, I need but stretch out my hand to possess myself of what is equally valuabel? Justice, in that case, being totally useless, would be an idle ceremonial, and could never possibly have place in the catalogue of virtues. ... This state of abundance

was the poetic fiction of a golden age and the philosophic fiction of a state of nature."[1]

Tus Justic and Private Property arise from relative scarcity. But, on the other hand, Justice and Common Property arise from extreme scarcity. "Suppose a society to fall into such want of all common necessaries, that the utmost frugality and industry cannot preserve the greater number from perishing, and the whole from extreme misery. It will readily, I believe, be admitted, that the strict laws of justice are suspended, in such a pressing emergency, and give place to the stronger motives of necessity and self-preservation. Is it any crime, after a shipwreck to seize whatever means or instruments of safety one can lay hold of, without regard to former limitations of property? The use and tendency of that virtue(justice) is to procure happiness and security, by preserving order in society: but when the society is ready to perish from extreme necessity, no greater evil can be dreaded from violence and injustice...The public, even in less urgent necessities, opens granaries, without the consent of proprietors... Would an equal partition of bread in a famine, though effected by power and even violence, be regarded as criminal or injurious?"[2]

Hume then gives historical examples from Sparta and the Agrarian laws of Rome, but concludes that the customs of property of Englishmen in his day, such as alienation by consent, enforcement of contracts, ownership of one's own product, inheritance, were generally more useful, and therefore more just, than common or

1. Ibid., 2:180, 184.
2. Ibid., 2:182.

equal ownership.

However, the argument is changed from Lock's absolute fixed laws of Nature and Divine Reason to Hume's relative utility according to the existing state of Scarcity. "Examine the writers on the law of nature; and you will always find, that, whatever principles they set out with, they are sure to terminate here at last, and to assign, as the ultimate reason for every rule which they establish; the convenience and necessities of mankind. A concession thus extorted, in opposition to systems, has more authority than if it had been made in prosecution of them."[1]

Extremes of human character likewise make public utility and justice a matter of change and relativity. "Suppose that though the necessities of the human race continue the same as at present, yet the mind is so enlarged, and so replete with friendship and generosity, that every man has the utmost tenderness for every man, and he feels no more concern for his own interest than for that of his fellows: it seems evident, that the use of justice would, in this case, be suspended by such an extensive benevolence, nor would the divisions and barriers of property and obligation have ever been thought of... Why raise land-marks between my neighbor's field and mine, when my heart has made no division between our interests?... The whole human race would form only one family; where all would be in common, and be used freely, without regard to property."[2]

He mentions the various virtues of honor, generosity, bravery, conscientiousness, good faith, and all that Adam Smith afterwards

1. Ibid., 2:189.
2. Ibid., 2:180, 181.

included under the name of sympathy, and, by basing his ethics on the economic principle of scarcity, he refuted both the ethical theories of Locke and Hobbes, "who maintained the selfish theory of morals,"[1] and the economic theories of Adam Smith and the economists for a hundred years who based their economics on self interest. "We have found instances", he says, "in which private interest was separate from public; in which it was even contrary. And yet we observed the moral sentiment to continue, notwithstanding this disjunction of interests. And wherever these distinct interests sensibly concurred, we always found a sensible encrease of the sentiment, and a more warm affection to virtue, and detestation of vice. Compelled by these instances we must renounce the theory, which accounts for every moral sentiment by the principle of self-love. We must adopt a more public affection, and allow, that the interests of society are not, even on their own account, entirely indifferent to us. Usefulness is only a tendency to a certain end; and it is a contradiction in terms, that any thing pleases as an end, where the end itself no wise affects us. If usefulness, therefore, be a source of moral sentiment, and if this usefulness, be not always considered with a reference to self; it follows that every thing, which contributes to the happiness of society, recommends itself directly to our appreciation and good-will."[2]

This Adam Smith afterwards denied. Yet if we are familiar with modern trade union ethics and the business ethics of industry, commerce and banking, we shall find that it is exactly Hume's

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1. Ibid., 2:267.
2. Ibid., 2:207.

Scarcity of resources and opportunities, with their resulting excesses of competition and monopoly, that give rise to all the economic virtues of honesty, fair dealing, fair competition, reasonable exercise of economics power, equal opportunity, live-and-let-live, good will, and reasonable value, which subordinate the immediate interests of self to that sharing with others of limited opportunities which makes possible the peaceful conduct of transactions and going concerns. Scarcity operates, as Hume says, both as self-interest and as self-scarcity, and an economics based on Hume's scarcity permits a union of economics, ethics, and jurisprudence, whenever the economics of self-interest following Adam Smith, divorced economics from ethics and law.

Hume again reverses his extreme supposition, in order to show the relativity of public utility and justice. "Suppose, likewise, that it should be a virtuous man's fate to fall into the society of ruffians...He can have no other expedient than to arm himself, to whomever the sword he seizes, or the buckler, may belong: To make provision of allmeans of defence and security: And his particularregard to justice being no longer of use to his own safety or that of others, he must consult the dictates of self-preservation alone, without concern for those who no longer merit his care and attention."[1] Here, unmitigated selfishness introduces anarchy, with complete abolition of ethics, justice and property.

Hume then abandons these extrme cases and proceeds to the actual complexity of historical society. "The common situation of society", he says, "is a medium amidst all these extremes."[2]

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1. Ibid., 2:182.
2. Ibid., 2:183

They do not operate as extreme cases. They operate with extreme complexity and extreme variability, according to circumstances. In order to discover the historical differences in public utility and justice, we must have recourse to "statutes, customs, precedents, analogies and a hundred other circumstances; some of which are constant and inflexible, some variable and arbitrary."[1]

All of these may be reduced to Hume's three ideas of repetition, variability, and futurity, which he recites under the name of Custom.

2. CUSTOM.

Hume differed from Locke in that he reduced ideas to feelings instead of allowing them to exist as mere intellectual objects. Bishop Berkeley had prepared the way, and to him Hume ascribed "one of the greatest and most valuable discoveries,"[2] which Hume then adopted.

Berkeley had pointed out the double meaning of "idea" in Locke's theory -- a feeling and a felt body, and showed that, as mere sensation, a feeling does not yield the relations of order, coherence and unity in the universe. Locke's "idea of a thing" was nothing more than an "idea", and an idea was nothing but a feeling, but it was a feeling also of the orderly, coherent, relations between feelings. Hence, for Berkely, the reality of a felt body disappears and only the reality of God remains, whom we immediately feel in our ideas of an orderly, coherent, beneficent will guiding the world.

1. Ibid., 2:191.
2. Ibid., 1:325.

Hume went further and held that the mind itself was neither Locke's nor Berkely's "soul" which knows its own feelings, but the mind was only the succession of feelings themselves which cannot know themselves.[1] "The mind is not a substance, or organ that has ideas; it is only an abstract name for the series of ideas; the perceptions, memories and feelings are the mind; there is no observable "soul" behind the processes of thought."[2] Thus Hume reached his ultimate skepticism that the world is only a succession of feelings, and that the mind as intellect, never perceives any real connexion between these feelings.

Hume continues, indeed, to speak of ideas as "copies", but they are not Locke's dry pictures of external objects -- they are faint feelings which repeat more vivid feelings. "Two ideas of the same object can only be different by the different feelings."[3] "Our ideas are copied from our impressions" and "they differ from each other only in the different degrees of force or vivacity."[4]

Every impression or perception, whether external or internal, whether of the bulk, motion, and solidity of bodies or of their colors, tastes, smells, sounds, heat or cold, or of pains and pleasures arising from them, are originally on the same footing-- they are impressions. These impressions are internal and perishing existences, and hence we do not know them as related either to any external substance that continues to exist or any internal soul

1. Ibid., 1:326 Green's Summary of Berkely and Hume.
2. Durant ibid, 281.
3. Ibid., 1:560, Appendix.
4. Ibid., 1:396. In the appendix, p. 560, he corrected this statement by omitting the word "only", but retained differences of feeling as the only differences of ideas.

that retains its identity. The sould does not observe itself feeling these impressions-- the soul is merely the succession of the perishing feelings themselves.

These instantaneous and perishing sensations have three characteristics. They are experiences, they are ideas, and they are repetitions.[1] [3]

As experiences they are conjuctions of ideas having resemblance contiguity and causation. Causation is the most extensive and appears in the two relations of motion and power. Motion is produced by one object in another object, but power is the capacity to produce such motion. Motion is actual, power is potential. Therefore cause and effect, actual or potential, is "the source of all the relations of interest and duty, by which men influence each other in society, and are placed in the ties of government and subordination. A master is such-a-one by his situation, arising either from force or agreement, has a power of directing in certain particulars the actions of another, whom we call servant. A judge is one, who in all disputed cases can fix by his opinion the possessions or property of any thing betwixt any members of the society. When a person is possessed of any power, there is no more required to convert it into action, but the exertion of the will."[2]

As ideas these same experiences are the familiar feelings of a less vivid force which remain or are repeated after the original

1. Ibid., 1:319
2. Ibid., 1:320-321.

experience, and thus are those reflections of impressions which we understand by memory and imagination. Ideas are internal repetitions of impressions from without and these are capable of producing a new kind of impression -- the impressions of Reflection, which are also feelings, but looking mainly to the future, such as desire, aversion, hope, fear.

It is these feelings of reflection that constitute Hume's notion of Opinion and Belief which we choose to designate, Meanings A belief cannot arise from a present sensation, yet neither can it arise without a present sensation. It is inseparable from the repetitions, which Hume names Habit or Custom.[1] "The present impression has not this effect by its own power and efficiency, and when considered alone, as a simple perception, it is limited to the present moment. I find that an impression, from which, on its first appearance, I can draw no conclusion may afterwards become the foundation of a belief, when I have had experience of its usual consequences. We must, in every case, have observed the same impression in past instances and have found it to be constantly conjoined with some other impressions...The belief, which attends the present impression, and is produced by a number of past impressions and conjunctions... arises immediately without any new operation of the reason or imagination. Of this I can be certain, because I never am conscious of any such operation and find nothing in the subject on which it can be founded. Now as we call everything Custom, which proceeds from a past

1. Cf. Boucke, O.F., A Critique of Economics, 151 (1922)

repetition, without any new reasoning or conclusions, we may establish it as a certain truth, that all the belief which follows upon any present impressions is derived solely from that origin. When we are accustomed to see two impressions conjoined together, the appearance or idea of the one immediately carries us to the idea of the other."

He then reverses his experiment and finds that if the idea exists without the present impression, then "although the customary transition to the correlative idea still remains, yet there is in reality no belief or persuasion. A present impression, then, is absolutely requisite to this whole operation; and when after this I compare an impression with an idea, and find that their only difference consists in their different degrees of force and vivacity, I conclude upon the whole, that belief is a more vivid and intense conception of an idea, proceeding from its relation to a present impression."[1] Belief is "a lively idea related to or associated with a present impression."[2] It is the meaning of the impression.

Thus Hume converts the idea of a "law of nature" not only from that of Locke's divine command issued in the past and from Locke's idea of a harmonious law of nature, but also from the idea of a necessary connection between cause and effect as well as from "arguments" of any kind. He makes the laws of nature mere expectations "derived entirely from habit, by which we are

1. Ibid., 1:403
2. Ibid., 1:396

determined to expect from the future the same train of objects, to which we have been accustomed. This habit or determination to transfer the past to the future is full and perfect; and consequently the first impulse of the imagination in this species of reasoning is endowed with the same qualities" of expectation.

If there is a contrariety of past experiments then this "first impulse is broken in pieces and we judge that" when they do happen, they will be mixed in the same proportion as in the past." The result here is a less degree of probability, but in any case, "the supposition that the future resembles the past... is derived entirely from habit."[1]

"Thus all probable reasoning is nothing but a species of sensations. 'Tis no solely in poetry and music, we must follow our taste and sentiment, but likewise in philosophy. When I am convinced of any principle, 'tis only an idea, which strikes more strongly upon me. When I give the preference to one set of arguments above another, I do nothing but decide from my feeling concerning the superiority of their influence. Objects have no discernable connexion together, nor is it from any other principle but custom operating upon the imaginstion that we can draw any inference from the appearance of one to the existence of another."[2] This bias is unconscious. "The past experience, on which all our judgments of cause and effect depend, may operate on our mind in

1. Ibid., 1:431,432.
2. 1:403.

such an insensible manner as never to be taken notice of, and may even in some measure be unknown to us."[1]

Sometimes, he admits, the reflection seems to produce the belief without the custom. We can even "attain the knowledge of a particular cause merely by one experiment." The mind then "draws an inference" concerning either the cause or the effect. But this seeming difficulty will vanish if we notice that we have many millions of experiments to convince us of the principle, "that like objects, placed in like circumstances, will always produce like effects." Thus our experience is transferred to instances of which we have no experience, not only expressly and directly, but also tacitly and indirectly.[2]

Thus it is that in all our affairs, whether of common life, or science, or philosophy, it is, not our intellect, but our past feelings repeated, that determine "that lively idea related to or associated with a present impression" which is, therefore, not intellectual knowledge, but that individual bias, which is the individual's meanings attributed to the impressions from without.

The same applies to Hume's idea of morals. Where Malebranche Cudworth and Clarke set out with moral relations as purely intellectual constructions, Hume asserted that such intellectual relations are mere tautological assertions like those of mathematics, which can not be felt, and then rested his ethics, as we have already observed on the feelings of public utility.[3]

1. Ibid., 1:405.
2. Ibid., 1:404.
3. Ibid., 2:190, 260. Above p. 000

Hume's Hegelian editor, T. H. Green, writing in 1875, revolts against this reversal of the laws of nature and morals from their old foundation on universal intellect to a foundation on individual feelings. "That a doctrine which reduces the order of nature to strength of expectation, and exactly reverses the positions severally given to belief and reality in the actual prodedure of science, should have been ostensibly adopted by scientific men as their own.i. would have been unaccountable if the doctrine had been thus nakedly pur or consistently maintained... Expectations is an 'impression of reflection', and if the relation of cause and effect is no more than expectation, that which seemed most strongly to resist reduction to feeling has yet been so reduced."[1] "In an expectation made up of such expectations, there would be nothing to serve the purpose which the conception of uniformity of nature actually serves in inductive science...Upon that 'interrogation of nature' by which, on the faith that there is a uniformity if only we could find it out, we wrest from her that confession of a law which she does not spontaneously offer."[2] "Uniform realtion between phenomena is neither impression nor idea and can exist only for thought."[3]

And Green concludes, "if the relation of cause and effect is merely custom, the extension of knowledge by means of it remains to be unaccounted for; the breach between the expectation of familiar feelings and inductive science remains unfilled; Lock's 'suspicions' that 'a science of nature is impossible',

1. Ibid., 1:277
2. Ibid., 1:275
3. Ibid., 1:286.

instead of being overcome is elaborated into a system."[1]

Durant likewise expresses Green's revolt. "Hume was not content to destroy orthodox religion by dissipating the concept of law. Science and philosophy alike, since Bruno and Galileo, had been making much of natural law, of 'necessity' in the sequence of effect upon cause; Spinoza had reared his majestic metaphysics upon this conception. But observe, said Hume, that we never perceive causes or laws; we perceive events and sequences, and infer causation and necessity; a law is not an eternal and necessary decree to which events are subjected, but merely a mental summary and shorthand of our kaleidoscopic experience; we have no guarantee that the sequences hitherto observed will re-appear unaltered in future experience. 'Law' is an observed custom in the sequence of events, but there is no 'necessity' in custom. Only mathematical formulas have necessity -- they alone are inherently and unchangeably true; and this is merely because such formulae are tautological -- the predicate is already contained in the subject; 3x3 and 9 are one and the same thing differently expressed."[2]

Yet modern science does exactly what Hume expounded, but with two important exceptions -- an active instead of a passive mind, and a feeling of relationship between the parts and the whole in place off Hume's unrelated "perishing sensations."

1. Ibid., 1:285.
2. Durant, Ibid., 281.

It was C.-F. Peirce[1], who in 1878, clearly distinguished and incorporated into feelings these relationships which Hume rejected because he could not explain them as feelings. Peirce illustrated the method by noticing two sorts of elements of conscious feeling, which resolve themselves into the distinction between a flow of time and a point of time. "In a piece of music there are the separate notes, and there is the air." Hume's impressions and ideas were the notes, isolated feelings at separate points of time; but not the air, a continuity of feeling through a flow of time." A single tone," says peirce, "may be prolonged for an hour or a day, and it exists as perfectly in each second of time as in the whole taken together; so that, as long as it is sounding, it might be present to a sense from which everything in the past was as completely absent as the future itself. But it is different with the air, the performance of which occupies a certain time, during the portions of which only portions of it are played. It consists in an orderliness in the succession of sounds which strike the ear at different times; and to perceive it there must be some continuity of consciousness which makes the events of a lapse of time present to us. We certainly only perceive the air by hearing the separate notes; yet we cannot be said to directly hear it, for we hear only what is present at the instant, and an orderliness of succession cannot exist in an instant, a These two sorts of objects, what we are <u>immediately</u> conscious of and what we are <u>mediately</u> conscious of, are found inaall consciousness. Some elements (the sensations) are completely present at every

1. Peirce, Charles S.,"How to Mke our Ideas Clear", <u>Popular Science Mag.</u>, Jan 1878. Reprinted, Chance, Love, &Logic, p.32
2. Cp.-Bergson, H., <u>Mind and Matter</u>.

instant so long as they last, while others (like thought) are actions which have beginning, middle and end, consist in a congruence in the succession of sensations which flow through the mind. They cannot be immediately present to us, but must cover some portion of the past or future.[1] Thought is a thread of melody running through the succession of sensation."

Thus thought itself is not a pure intellectual abstraction, but it is, as it was for Berkley and Hume, a feeling, but it is not a succession of separate feelings -- it is the overtone of feeling that runs through the repetition of feelings. Thought says Peirce, differs from other systems of relations such as music, in that "its sole motive, idea, and function is to produce," not intellectual knowledge, but the feeling of "Belief".

Belief has four properties: "it is something that we are aware of; it appeases the irritation of doubt; it involves the establishment in our nature of a rule of action, or say for short, a habit...The <u>final</u> upshot of thinking is the exercise of volition ... The essence of belief is the establishment of a habit...The whole function of thought is to produce habits of action; and whatever there is connected with a thought but irrelevant to its purpose, is an accretion to it but no part of it... To develop its meaning, we have, therefore, simply to determine what habits it produces, for what a thing means is simply what habits it involves... What the habit is depends on <u>when</u> and <u>how</u> it causes us to act. As for the <u>when</u>, every stimulus to action is derived from perception; as for the <u>how</u>, every purpose of action is to produce some sensible result. Thus we come down to what is

tangible and practical," for which reason Peirce gave it the name Pragmatism, "as the root of every real distinction of thought, no matter how subtile it may be...Our idea of anything is our idea of its sensible effects."

And he concludes with a rule for obtaining scientific clearness in our ideas. "Consider what effects, which might conceivably have practical bearings, we conceive the object of our conception to have. Then our conception of these effects is the whole of our conception of the object."

Here, however, the ending is only Hume's individual bias, which differs according to the different feelings of different persons. We must proceed further and get a feeling that is not biased. This is the problem of reality.

Peirce's solution of the metaphysical problem of the ultimate and fundamental reality becomes, not an individual bias, but a social consensus of opinion. "The real is that whose characters are independent of what anybody may think them to be... The opinion which is fated to be ultimately agreed to by all who investigate, is what we mean by truth, and the object represented in this opinion is the real. That is the way I would explain reality."[1]

Thus the meaning of metaphysics is changed. It is no longer a problem of an individual's intellectual knowledge of ultimate reality as it was with Locke, Berkely and Hume, it is a problem of the expectations which those who investigate agree in predicting as to the world's events such that they feel confidence in acting alike for the future in so far as they continue to agree. This is,

1. Ibid., 52,57.

not merely Hume's not merely Hume's biased belief -- it is scientific belief, and is the unbiased meaning of meaning. Where Hume had to go back to his individual experience which he could see or remember,[2] in order to get something "beyond which there is not room for doubt or enquiry", Peirce requires social confirmation by all who see and remember in order that there may be no room for doubt and enquiry. This is the difference between bias and science.

Thus Peirce reveals Hume's shortcomings. They are first, Hume's idea of the mind, like that of Locke, as a mere passive receptacle of impressions from without, existing only for a point of time,[3] whereas Peirce's idea is that of an active, continuing organizer and reorganizer of impressions. The impressions exist longer than a mathematical point of time, for they flow from the past through the moving present into that immediate future which is always becoming the present. Time with Hume is successive points, time with Peirce is a flow. Thus Hume was a mere sensationalist, but Peirce was -- a pragmatist.

Being an organizer and reorganizer of impressions, the impressions themselves are seized upon in their external relations of parts related to the whole activity, instead of coming in to the mind as separate impressions associated only by resemblance, contiguity and succession. The mind does not wait for impressions, it is continually looking for them, breaking them up into parts, and reconstructing them into new feelings. These new feelings are

2. Ibid., 1:384.
3. Durant, Ibid., 295.

not Hume's passive beliefs, but Peirce's active beliefs reaching forward for further action.

Peirce also enables us to see that Hume's skepticism was derived from his individualism and the isolated speculations of great philosophers of his age unaided by the cooperation and rivalry of scientific investigators. His skepticism was his distrust of the mere individual intellect as an instrument for discovering the metaphysical ultimate reality of things,[1] as it had been relied upon both by Locke and all philosophers who preceded himself. Hence he rejected the intellect as something abstracted from feelings. His intellect was a series of feelings.

Hume was frank enough about this skepticism. "I am first affrighted and confounded with that forlorn solitude in which I am placed in my philosophy...Every step I take is with hesitation, and every new reflection makes me dread an error and absurdity in my reasoning... Can I be sure, that in leaving all estanlished opinions I am following truth?...There are two principles which I cannot render consistent, nor is it in my power to renounce either of them, viz., that all our distinct perceptions are distinct existences, and that the mind never perceives any real connexion among distinct existences...Most fortunately it happens, that since reason is incapable of dispelling these clouds, nature herself suffices to that purpose... I dine, I play a game of backgammon, I convers, and am merry with my friends..."[2] I forget my skepticism

1. Cp. Durant, Ibid., 506.
2. Ibid., 544,595,539.

Thus Green's criticism of Hume is sound in one respect and unsound in another. It is sound in that Hume's idea of an individual's experiences can never be a foundation for science, since it is only the unconnected experiences of individuals, which is bias, not science. But Green is wrong in insisting that science requires a predetermined uniformity in the laws of nature. All that science requires is Peirce's uniformity of expectations on the part of those who investigate.

Hume's manly skepticism was the individualism of his century and the isolation of a pioneer. Peirce's reality is the consensus of all who investigate. This is borne out by Hume's idea of education. He attributes to custom "all belief and reasoning,"[1] but he does not distinguish Custom from Habit. Hence when he comes to education, he looks upon it as "an artificial and not a natural cause...though it operates upon the mind in the same way as the senses, memory, or reason."[2]

Yet if we distinguish custom from habit, then custom is none other than acquired education, for it is the repeated impressions of fellow beings, whereas Hume's Custom, identified with habit, had to do with man's relation to physical nature and not with the pressure exerted by similar habits of others. Habit is indeed the individualistic term in that it includes experience, feelings, and expectations of an indicidual but custom is that potpourri of experience, feelings and expectations derived from other persons, of which education is a special case. Habit is repetition by one

1. Ibid., 1:416.
2. Ibid., 1:416.

person; Custom is repetition by a collective group of persons, which has a coercive effect on individuals, and, instead of education accounting for "more than one-half of those opinions that prevail upon mankind", as Hume contended,[1] it accounts for [illegible] practically all of them. Hence education is not artificial -- it is the usual process of acquiring habits through life-long repetition of dealings with others. Education is the acquiring of custom. And so it is with Peirce's consensus of opinion. It is the consensus of beliefs which has the force of education in creating new habits.

Thus we apprach, through Hume in 1739 and Peirce in 1878, the meaning of meaning. This meaning, however, is not yet complete for our economic purposes, because Hume was an individualist and sensationalist, and Peirce's field of research was the physical sciences. Not until we reach James and Dewey do we find Peirce expanded to the social sciences. Yet Hume's belief is what we mean by meaning.

It is first of all, bias, says Hume, "After the most accurate and exact of my reasonings, I can give no reason why I should assent to it, and feel nothing but a <u>strong</u> propensity to consider objects <u>strongly</u> in that view under which they appear to me." My feelings are always biased, and therefore I am skeptical.

This bias arises from experience. "Experience is a principle which instructs me in the several conjunctions of objects

1. Ibid., 1:416.

from the past." These are resemblance, contiguity and causation.

Then experience repeated becomes habit. "Habit is another principle, which determines me to expect the same for the future."

Then experience and habit become imagination. "Both of them conspiring to operate upon the imagination, make me form certain ideas in a more certain and lively manner than others, which are not attended with the same advantages... The memory, senses, and understanding are, therefore, all of them founded on the imagination, or the vivacity of our ideas."

But all of these feelings are called into existence only when an impression from without excites them, and their inference from that impression is belief. "An opinion, therefore, or belief, may be most accurately defined, a lively idea related to or associated with a present impression."

This belief, "is a more vivid and intense conception of an idea", and according to its relative intensity compared with accompanying passions, pains and pleasures, "actuates the will."

Thus according to Hume, beliefs are the individual's biased meanings of events and it requires still further Peirce's consensus of belief of all who invetigate, in order to eliminate bias and to attain, not only Peirce's confidence of physical expectations, but also, as we shall see, that consensus of reasonable men acting collectively, which we name the Reasonable Value and Reasonable Practice which yield confidence in social expectations.

CHAPTER V.

Adam Smith

I. Self Interest

II. Liberty, Security, Equality

III. Property

IV. Labor Power and Labor Pain

1. Cause of value

A. Cause of Use Value

B. Cause of Scarcity Value

a. Psychological scarcity

b. Proprietary Scarcity

2. Regulator of Value

A. Reasonable Value

B. Liberty and Scarcity

3. Measure of Value

A. Real and Nominal Values

B. Transactions

V. Opinion

Chapter V.

John R. Commons
March 1927.

Adam Smith

I.
Self Interest

David Hume in 1751 had substituted Scarcity and Public Utility for Locke's Abundance and Commonwealth, and it was in this sense of public good or public welfare that Smith understood Hume's meaning of Utility. But, while consenting, as a philosopher, to Hume's idea of public utility, Smith, in his Theory of the Moral Sentiments, 1759, denied that, as a "sentiment" common to mankind, it could be effective. The idea he said was derived from a "philosopher's reflections", and was not a direct motive of the individual, to support justice. "The public usefulness of any disposition of mind is seldom the first ground of our approbation," but rather do we intuitively appreciate, without reflection, both in ourselves and others, those virtuous human qualities, such as reason, good understanding, self-control, humanity, justice, generosity, public spirit, without thought of their utility to the community. And we directly disapproye and hate the opposite qualities of greed, selfishness and vice without reference to their effect on the community as a whole. The idea of the (public) utility of all qualities of this kind is plainly an afterthought and not what first recommends them to our approbation."[1]

1. Smith, Theory of the Moral Sentiments, 000

All of the foregoing approvals and disapprovals, Adam Smith therefore, resolved into a single sentiment of the individual -- sympathy, with its opposite, antipathy, guided, however, by what he named "a sense of propriety" and including conscience, or the sense of duty. We do not, of course, actually feel the identical feelings of others but rather do we proceed through a lively imagination to place ourselves in the position of another, and, in doing this, we exercise judgment as to the "propriety" or impropriety, that is, the fitness, of their position and our own. Then Smith personifies this sympathy as an "impartial spectator", "a man within the breast", "the great judge and arbiter of our conduct", "divine providence" and "invisible hand" which guides our conduct for the benefit of others, by a personification of Hume's public utility.

Having thus, in 1759, safeguarded the virtue of nations, Smith proceeded in 1776, to the Wealth of Nations. Here, also, was a vice-gerent that needed not the help of Church or State, namely, the self-interest of individuals in seeking to promote solely their private interest without regard to the public interest.

It has been suggested, in criticism of Smith, that in his Wealth of Nations he contradicted his Theory of the Moral Sentiments. In 1759 he made self-sacrifice the source of social welfare -- in 1776 he made self interest the source. Yet the two are not inconsistent if we notice Smith's idea of abundance as opposed to Hume's idea of scarcity. Hume derived both self-interest and justice from scarcity, but Smith derived self-interest from abundance and justice from sympathy, both of which

were derived from his theological view of divine harmony and beneficence. If there is an abundance of products and nature's resources, no person can injure any other person by taking all he can get, if he does it by his own labor and exchange and not by collective action, because enough will be left for others to take all they can get by similar methods. Self-interest cannot injure anybody in a world of abundance, as Locke had previously shown, but self-interest does injure others in a world of scarcity, as Hume had shown.[1]

Hence Smith was consistent in his Moral Sentiments and his Wealth of Nations. In the former book he was dealing with the direct relations of human beings to each other. In the latter he was dealing with the indirect relations through the production of abundance of use-values. The motives that lead human beings to sacrifice themselves directly to the good of others on account of their virtues in a world of abundance may be quite different from the motives that lead them to produce use-values for the satisfaction of their wants, also in a world of abundance.

The failure of Smith's critics to distinguish the two involves the double meaning of public utility, the happiness of man derived from sympathetic behavior and the happiness of man derived from abundance of commodities. The former may be named ethical utility, the latter economic utility. Hume derived both

1. Jacob Viner shows that Smith in his Theory of the Moral Sentiments gave to benevolence "but a minor role" in economic matters. See Viner, "Adam Smith and Laissez Faire", 35 Hour. Pol. Econ., 198, 206 (1927).

from Scarcity, but it is self-sacrifice that promotes the former, according to Smith in 1759, and self-interest that augments the latter, according to Smith in 1776.

Smith differed from all of the "philosophical afterthoughts" of Hume, not because he disagreed with Hume respecting their ultimate truth, but because he was concerned with what "first recommends" them as an individual inducement. In the case of the Viftues, it was sympathy for those who were virtuous that induced the individual to subdue himself for their benefit; in the case of production of wealth, it was selfishness that induced the individual to subject himself to the pain of labor in order to satisfy their wants.

It was his great idea of division of labor that enabled him to distinguish self-interest from sympathy, each conducice to the welfare of others.

"The greatest improvement in the productive powers of labor", he said, "and the greater part of the skill, dexterity and judgment with which it is anywhere directed or applied, as well as the inventions of a great number of machines, seem to have been the effects of the division of labor..... It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions, in a well governed society, that universal opulence which extends itself to the lowest ranks of the people. This division of labor, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion... but is the consequence of

a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter and exchange one thing for another.... A consequence of the faculties of reason and speech.... It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts.... Nobody ever saw one animal by its gestures and natural cries signify to another, 'this is mine, that is yours; I am willing to give this for that.' But man has almost constant occasion for the help of his brethren and it is vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self love in his own favor and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind proposes to do this: Give me that which I want and you shall have this which you want, is the meaning of every such offer, and it is in this manner that we obtain from one another the greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.... Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens."[1]

It was this new idea of Division of Labor that furnished for Smith the foundation of his philosophy of perfect liberty for the individual, as against the doctrines of collective control of in-

1. Smith, Wealth of Nations, Cannan's ed., 1:5-17. Bonar traces Smith's idea to Mandeville's "Private Vices, Public Virtues." Cp Bonar, James, Philosophy and Political Economy, 154 ff (1893).

dividuals that characterized the Mercantilism which Locke had accepted. It was this, too, that turned him away from Hume's philosophical doctrine of scarcity and public utility, since that was the very doctrine upon which Mercantilism relied. In place of subordination of individuals to collective action he substituted a natural order of benevolence and abundance that guided the self-interest of individuals in exchange of goods. The Mercantilist policy of restraining the self-interest of individuals on the ground of scarcity and public utility was both irrelevant and hypocritical. "As every individual," says Smith, "necessarily endeavors, as much as he can, both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value he intends only his own gain, and is, in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not common among merchants, and

very few words need be employed in dissuading them from it."[1]

This meaning of "public good" or "public utility" turned on Smith's meaning of use-value. It did not diminish with abundance-- it increased with abundance. The greater the accumulation of use-values owned by individuals the greater is the wealth of nations. This was Locke's meaning of Commonwealth, but with division of labor introduced and cosmopolitanism substituted for Mercantilism, Locke's Commonwealth was the mercantilist view of England protecting herlsef against the world. Smith's Wealth of Nations was the cosmopolitan view of all nations making each other wealthy by Division of Labor. Both the nation's wealth and the world's wealth are the sum of individual wealth. The individual does not intend to augment the wealth of his nation or other nations, he simply cannot help doing so if he would augment his own wealth. He can augment his own wealth only by labor, accumulation and exchange with others at home and abroad.

Smith's division of labor took the several forms of industrial division, territorial division, international division, and shop division of labor. The latter included the division between master and workman as well as that between workmen, but this did not affect the principle, because profits and wages were alike and the master was a working farmer, manufacturer and merchant, not the monopolist or landlord who obtained wealth without working.

With this division of labor and consequent exchange of products, Smith obtained a further ethical justification of property. Locke's justification went only so far as to justify ownership by the laborer of what he individually has produced, but he had dif-

1. Ibid., 1:421

ficulty in justifying the ownership of other people's product obtained in exchange. Smith supplied the justification by his division of labor. If there is perfect liberty in the exchange of products then the laborers will see to it that the quantity of labor which they give up will be quite equal, or "supposed to be equal", to that which they receive in exchange. No person could therefore become wealthy without making other people equally wealthy, for the accumulation of one's labor, put into circulation, would be equal to the accumulation of other people's labor taken out of circulation. In this way, division of labor and pefect liberty, along with Locke's Abundance, justified not only private property in one's own product, but also private property in other people's products.

Likewise with Hume's concepts of Scarcity and public utility. With abundance substituted for scarcity, Hume's "public utility" as a motive of individual action totally disappeared. And with collective action eliminated so that pefect liberty of individuals resulted in getting wealthy only by making others equally wealthy, then the interference of the state should be permitted only in the most exceptional and urgent cases.[1] If left to this natural state of perfect liberty then each individual would have only his own toil and trouble as his measure of both his own product and the equivalent product of others, and these needed no concept of public utility or public welfare, nor even of a social organism, since the invisible hand of providence that operated through abundance, division of labor, private property, perfect liberty and self interest was adequate for the public interest.

1. Ibid., 2:32, 43, 83, 171.

II.

Liberty, Security, Equality.

The Mercantilist policy, as understood by Smith, was not merely a policy of government protecting private business men from competition by protective tariffs, bounties and similar privileges, it was also all private collective arrangements of all kinds by which individuals adopted rules or followed customs restraining the perfect liberty of individuals from engaging in the most unlimited competition. The only duties of a government in sustaining a system of natural liberty were "protecting the society from the violence and invasion of other independent societies"; protecting "every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice," including the enforcement of individual but not collective contracts; "the duty of erecting and maintaining certain public works and public institutions.... because the profit could never repay the expense to any individual or small number of individuals."[1] This excluded all bounties, protective tariffs, franchises, regulations of trade, labor legislation and so on. Yet his idea of government is not strictly laissez-faire. It is a government which holds every individual away from every other individual. Each individual is taboo,[2] but each may voluntarily raise the taboo for a short period of time and may voluntarily authorize the government to enforce his individual contracts. If this is done, then every individual has "perfect liberty". This perfect liber-

1. Ibid., 2:185.
2. Cp. Frank, Lawrence K., "The Emancipation of Economics, 14 American Economic Review, 17 (1924).

ty means that he is free to seek his self interest in any way he pleases. He is free to choose what he will do with his own body, or with the objects of nature which he holds, or with the output of his labor, or with the output of other people's labor which he has received in exchange.

This concept of self-interest is inseparable from that of Security, for if there is no firm expectation that other people will be held off in the future as well as in the immediate present, then such a creature as man who lives by expectation can have little inducement to produce, save or exchange. And it also means Equality of opportunity, for if some individuals are held off from others, but the latter are not held off from the former, then the former are not free but the latter are free, and we have the very situation of the mercantilism and landlordism which he condemned because it permitted privileged classes to infringe upon the freedom of the industrious and thrifty merchants, manufacturers and farmers upon whom he relied for productivity, thrift and exchange. In short, the self-interest of the individual is nothing else but holding other people off so that each may operate in any direction deemed most advantageous to self. Smith's meaning of self-interest was liberty, security and equality.

But governments are not the only collective action that interferes with liberty and equality. Equally to be prohibited were all customs and all private associations that made arrangements, rules or gentlemen's understandings, which limited individual competition. "People of the same trade," he said, "seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." This is not a state of perfect individu

liberty". Though these meetings cannot be prevented consistently with "liberty and justice", yet the law "should do nothing to facilitate such assemblies, much less to render them necessary." Hence he would rule out all telephone directories, for there should be even no public register of their names which "connects individuals who might never otherwise be known to one another". They might agree to give up their perfect liberty and be bound by rules. Likewise, regulations which enable "those of the same trade to tax themselves in order to provide for their poor, their sick, their widows and orphans, by giving them a common interest to manage, renders such assemblies necessary." Perfect liberty cannot be maintained if individuals submit to collective rules.

Likewise with masters and their workmen. "The masters, being fewer in number, can combine much more readily.... we seldom, indeed, hear of this combination because it is the usual, and, one may say, the natural state of things which nobody hears of. These combinations "sink the wages of labor even below the natural rate",[1] which would not occur if masters did not give up their perfect liberty by submitting to rules of their own making.

But most obnoxious of all the features of restraining the perfect liberty of self interest is the provision that "makes an act of the majority binding upon the whole. In a free trade an effectual combination cannot be established but by the unanimous consent of every single trader, and it cannot last longer than every single trader continues of the same mind. The majority of a corporation can enact a by-law with proper penalties which will limit the competition more effectively and durably than any voluntary combination

1. Ibid., 1:130.

ever. The pretense that corporations are necessary for the betterment of government and of the trade is without foundation. The real and effective discipline which is exercised over a workman, is not that of the corporation, but that of his customers."[1]

Thus Smith, in restoring the natural right of perfect liberty and equality of all individuals, had no misunderstanding as to the nature of custom or the by-laws of corporations, or the working rules of going concerns, or the compulsion of what we know in recent times as "business ethics", or the stabilizing practices of business, the live-and-let-live policies of fair competition, the "follow-the-leader" practices of modern price making or the shop rules of unions, all of which impose restrictions upon the property, profits, or wages of the individual through collective control of his liberty to do as he pleases. Smith's meaning of liberty was therefore not merely an absence of statutory compulsion imposed by government but an absence of every moral or economic compulsion imposed by custom or trade practice, or business ethics or collective pressure, or collective bargaining, that condemns the price-cutter, profiteer, or scab who takes more than his share of limited resources or limited markets. Smith's labor was free labor beyond anything known on earth.

The explanation is that his was a theory of universal Abundance and Divine Beneficence, not interrupted by any disproportionate over-production nor by any artificial scarcity caused by corporations or other associations. With his theory of abundance and providence he, like Quesnay, condemns all regulations by governments, all tariffs, all restraints of custom, and even calls in question the support by taxes of free education and its consequent subjection to politics.[2]

1. Ibid., 1:
2. Ibid., 1:131-136; 2:249-299.

he sets up a natural law of purely individualistic self interest and perfect liberty through abolition of custom and working rules restraining the individual, and substitutes the guiding hand of a beautiful providence for the entire regulative policy of Europe, and even against the common sentiments of sympathy which unite people in associations to care for their poor, sick, widows and orphans. In this he expressed the sentiments of the age, and the French Revolution carried out his ideas by abolishing church, landlords, associations and unions.1

III.
Property

Property, with Smith, was the protection by law of the laborer in holding for his own exclusive use against all the world, the physical products of labor. This was the physical, colonial, or agricultural concept of property, found also in Locke and Quesnay and not based on any concept of scarcity but on the physical holding of objects having use-value. Smith could not base Property on the principle of scarcity, as Hume proposed, because that would lead to the monopolistic practices of mercantilism and its pretense of benefitting the public by restricting supply. But his definition of liberty had included all that is contained in the meaning of individual property. Liberty included exclusive holding for one's own use the physical objects which he could use or abuse as he pleased. It included liberty to sell or not sell, security for the future and equality with all other individuals before the law.

But this private property is strictly individual property, and his meaning is carefully distinguished from all notions of corporate property or associated property or any subordination of the will of

1. Le Lois Chapelier, 1791

the propeietor to any custom or trade practice. Hence if we use the term "individual property", we have the essential union of what Smith meant by terms as seemingly divergent as "labor", "individual", "self-interest", "exchange", "productivity", "frugality", "commodity" and even "wealth of nations". His laborer is always an individual proprietor. His commodities are always individually owned. His Wealth of Nations is the sum of individual wealth. His self-interest is the free will of an unregulated individual owner. In short, the term "individual property" is Smith's idea of willingness to produce wealth and exchange it with others.

This meaning of property was taken over by the Supreme Court in interpreting the Fourteenth Amendment, not observing Smith's exclusion of corporate property because it created artificial scarcity.[1] But the Supreme Court went further, owing to its desire to bring modern business practices within the meaning of property and liberty protected against legislatures, and gave to transactions themselves the meaning of property. The court followed John Locke and Adam Smith in their ideas of God, Nature and Reason but enlarged the meaning of property to include any transaction which has the attributes of scarcity and probable expectancy. This, indeed, conforms to our formula of transactions whose expected repetition is a going concern, and this, therefore, may be said to be the present constitutional meaning of property in the United States. It includes liberty to pursue, not only Smith's individual self-interest, but the corporate self-interest of a personified association of stock holders and bond holders, in the exclusive use, not only of physical objects, but all objects that are scarce. It includes liberty to withhold from others, liberty to alienate

1. Commons, J.R., Legal Foundations of Capitalism, 11ff.

to others and liberty to acquire from others. Each of these attributes implies scarcity relations, and since the physical concept of holding for self can practically apply to all objects that are scarce or expected to be scarce, the whole concept of property becomes a concept not only of things that are scarce but of transactions regarding the acquisition or exchange of things that are scarce.

Thus the meaning of property enlarges from physical things to transactions and the expected repetition of transactions, and from use-values to scarcity values. Smith did not include in his concept of property either its transactions or its scarcity values. The latter were the evils of mercantilism. The former were already included in liberty. The theories and practices of mercantilism were before him, based entirely on the fact of scarcity and their pretense of public utility. This pretense as the justification of governmental control of relative scarcities is hypocritical, whereas perfect individual liberty to labor and accumulate in one's own self-interest is the honest method of taking care of the public welfare. The principle of scarcity left economic theory to the arbitrariness of physical nature or the political control of governments and the monopolistic practices of gilds and corporations, comprehended in the term "mercantilism".

Against this false doctrine of what we may name Collective Scarcity, he set up a doctrine of individual productivity, operating through the institution of individual private property, uncontrolled by governments or corporations or customs. So that his three main topics, productivity, thrift and effective demand, turned on his idea of the individual will induced by perfect liberty to produce

accumulate and exchange, and on individual property, in opposition to any form of corporate, collective, or governmental control imposed by the policies of mercantilism.

In making his substitution of individual property for corporate property or collective control Smith rejected Hume's realistic foundation of property on scarcity, but founded it, like Locke, on natural order, divine beneficence and abundance. What he actually did, therefore, was to substitute Individual Scarcity arising out of the custom and law of property, for a collective scarcity arising out of the regulations and restrictions of sovereignty and of gilds, corporations or practices authorized and permitted by sovereignty. He conceived property to be based, not on the fact of scarcity, nor the fact of custom, but on his justification of ownership of the products of one's own labor. Like Locke he merged a fact with its justification.

Herein we draw the distinction between the object of property, the rights of property and the reason of property, a distinction which Smith did not draw, as was inevitable, since his ultimate philosophy was that of a moral order of the universe wherein a custom and its reasons are inseparable. In short his idea of Reason was like that of John Locke, a union of Happiness and Justification.

If we make these distinctions, then Property as a tangible fact is the exclusive holding of physical things because they are scarce; rights of property are the collective securities, compulsions, liberties and exposures that go with that exclusive holding. These rights of property were justified by Smith on the foundation of labor. But property, itself, including tangible, intangible and incorporeal property, and distinguished from both rights and reasons, is simply the scarcity conditions of individuals, determining, according to prevailing rules, their transactions wi

other individuals. Smith could not contemplate the later developments of collective property in any of its forms of corporations or concerted movements where individual liberty and individual property are subordinated to collective rules of going concerns. While scarcity is ultimately, as Hume understood, a scarcity of food, clothing, shelter and land, yet for the business man, working man, creditor, debtor, landlord, tenant, scarcity is a scarcity of proprietors. These proprietors are buyers, sellers, lenders, borrowers, landlords, tenants, who own, or have the prospect of owning, the food, clothing, shelter and land. It is this proprietary scarcity for which prices are paid, and the price is not the price of the food, clothing, shelter or land -- it is the price paid for the right, as McLeod afterward asserted, to have the government exclude everybody else from the said food, clothing, shelter or land. Scarcity, as an immediate fact of business and the subject-matter of economics, is scarcity of those who have legal control, not scarcity of goods. It is only for the wants of wild animals that scarcity is scarcity of food. For the wants of mankind scarcity is scarcity of actual and potential owners of food, willing to give orders to laborers to produce and transfer titles of ownership.

This distinction, perhaps, runs counter to common sense in the time of Adam Smith. But modern absentee ownership, corporations, syndicates, unions, high financing and wholesale marketing, have changed common sense. Goods have physical dimensions, handled by laborers, but ownership has scarcity dimensions negotiated by business men. Business men are specialists in scarcity. The distinction was not apparent nor of great importance in a period of

small manufacturers, merchants and farmers who did their own working, accumulating and exchanging.

If, then, Smith did not accept Hume's identification of property with scarcity, nd if he rejected all forms of collective control of supply as the artificial monopolies of mercantilism, wherein did he find the scarcity principle operating in his economic theory? He found it in Labor Pain. Pain is his personification of scarcity.

Elie Halevy suggested an ethical reason why Smith defined value as a function of labor instead of a function of scarcity.[1] Puffendorf had made the value of a thing a function of its fitness to satisfy wants, and its price a function of its scarcity. Hutcheson, Smith's teacher, made value a function of fitness to produce pleasure and of difficulty of acquisition, the latter looked upon by him as identical with scarcity. In the concise terminology of Hume, these meanings would have been expressed as utility and scarcity. But it was John Locke whom Smith followed. Locke had in mind a juridical theory of the right of property as against the arbitrary claims of British monarchs before the Revolution of 1689. He justified that right by a productivity theory to the effect that differences in value are determined by differences in the amount of labor required to obtain an object from nature. Since the laborer owns himself, it follows that he owns what he has "mixed his labor with". Any additional value, due to natural scarcity or nature's abundance, and not reducible to

1. Halevy, Elie. Le Radicalisme Philosophique, 3 vol. (1901), 1:172ff

human labor, was negligible, according to Locke, since he estimated that 90 to 99 per cent of the value of property, including land, could be reduced to the productive labor mixed with it. On this account constitutional government as against arbitrary government, is instituted in order to protect this ethical right of the laborer to his own product.

Smith agreed with this "natural and inviolable" right of property, but it should be noted that, when he defined value as a function of labor instead of a function of scarcity, he had already personified scarcity as equivalent to the labor pain of the laborer, the equivalent of Hutcheson's difficulty of attainment". Labor-pain is something that immediately recommends itself to the laborer who feels it -- he does not feel scarcity -- he feels the labor-pain that increases with scarcity and decreases with abundance. If scarcity is the philosopher's abstraction, pain is the laborer's feeling.

This personification of scarcity we shall consider further at length. We now notice his differences with Hume, in whose analysis we find the more correct interpretation. Hume brought together, under the simple idea of Scarcity, all that may be distinguished as Property, law and ethics. Smith separated them into his three ideas of a physical object having use-values, a personification of nature as benevolence and abundance, like Locke, and also Locke's ethical justification.

If, however, we look upon Property as an expected repetition of transactions, either private property or common property, then both property and the rights of property are, as Hume maintained, a function solely of scarcity -- or rather they are scarcity itself in action. Neither property nor rights of property exist except

as to what is scarce or expected to be scarce. The value of property is always a scarcity-value. This behavior of man individually and collectively, animated by scarcity, is as instinctive as life itself, and its threefold meaning may be distinguished as the Object of property, the Instinct of property and the custom of Property. The instinct may be as destructive of others as it is preservative of self, and while the word "instinct" is dubious of meaning, it may be interpreted to mean the behavioristic fact exhibited by all living creatures, whether rational or not -- insofar as motivated by scarcity of resources or opportunities. The instinct of property is the instinct of scarcity, while the object of property is the things that are scarce.

Every enduring community of mankind, therefore, sets up rules governing individuals in this pursuit of exclusive possession of what is scarce, and these rules arising directly out of repeated practices and decisions of disputes which, when thus authoritatively decided, become a common law of property. It is this legalized custom of property that decides what the individual can do with limited resources and limited opportunities, in that the rest of the community will help him or restrain him by compulsion if needed. It decides what he must do in using what is scarce, in view of collective compulsion; what he must not do in using it or interfering with its use by others. It decides what, correlatively, a person may do, in that others will compulsorily be held off from interferences, and what he may not do with impunity, in that others will not be held off by collective action. It is these scarcity regulations which are usually understood as the "rights of property" distinguished from the "object" of property, but these rights are, in fact, a very complex bundle of securities, compul-

sions, liberties, and exposures, while the "object" of property is, in fact, the bargaining and managerial transactions of human beings in asserting control over what is scarce. Property, as we understand it, is the scarcity relation between man, or indeed, any living creature, on the one side, and an object whose supply is limited, on the other side. But rights of property are the collective compulsions imposed on individuals relative to these scarcity relations. In this respect we follow Hume precisely. Both property and the rights of property are scarcity relations.

The foregoing we distinguish as the behavioristic meanings of property and rights of property. But the ethical meaning, if it be distinguished from the behavioristic meanings, is the mental process of giving meaning and value to the objective behavior, as to whether the securities, compulsions, liberties and exposures in question are "right or wrong", just or unjust. Here, again, we follow Hume. A security protected by a group sanction always means a correlative and equivalent compulsion imposed on others as a duty to protect it. Right and duty are relations between opposite persons, but right and wrong are approvals or disapprovals respecting the right and duty. Right and wrong are matters of justification. Right and duty are matters of compulsion. A right protected by a group, and its correlative equivalent duty, may be ethically wrong or ethically right, and if the two meanings of right are identified, as was done by Smith in his idea of the natural right of property, then an ethical justification is personified as though it were a fact of observation. This was unavoidable for Smith, since he, like Locke and Quesnay, saw no distinction between a benevolent providence that intended to give to labor a sacred right or property, and an historical fact of

custom or law that did or did not give it. The ethical and legal meanings of property founded on labor were identical for Smith, because he did not distinguish facts from their justification as intended in the mind of the benevolent ruler of the universe. Hume did distinguish facts from their justification. The facts were scarcity, the justification was man's own ideas of utility. Yet the distinction between fact and its justification could not be made until science was distinguished from theology and ethics. The distinction is just as far from being made today as it was in the time of Locke, Quesnay and Smith. Justifications are asserted as facts, and Adam Smith shows us how it was done.

Yet a fact is, after all, as Hume demonstrated, only a mental construction expressed in words and intended to convey to other people information regarding what happened. As such the element of persuasion is a constituent part of a fact. Its persuasiveness consists in its capacity to elicit acceptance by others. Since, therefore, a fact is a mental construction arrived at by selecting certain qualities from the great complex of experiences, this persuasiveness of the fact is accomplishing by selecting the qualities that will persuade. Smith selected as his own persuasive acquisition and accumulation of wealth. This particular phrase is sufficiently ambiguous to include all of the economic, legal and ethical meanings, and sufficiently appealing to carry consent. It can be recognized by everyone as a fundamental fact of human nature, underlying all activity. It has an ethical appeal inseparable from the many physical, scarcity and proprietary meanings attributed to it. It is, in short, both a fact and a justification of the conclusions which Smith asserted in

his exposure of mercantilism.

Smith's assertion of property was identical with his assertion of self-interest as the moving force in economics. Self-interest was offered both as the means of promoting the public interest and as an exposure of the hypocracy of mercantilism. As a means of public welfare, self-interest, when accompanied by rights of property and perfect liberty, accounted for production, saving and exchanging of goods by capitalists. The capitalists' savings are the accumulation of the output of labor "in some particular subject or vendible commodity which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion, where it can "put in motion a quantity of labor equal to that which . originally produced it.... Capitals are increased by parsimony and diminished by prodigality and misconduct.... Industry provides the subject which parsimony accumulates.[1]..... In the midst of all the exactions of government this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which it is to be hoped, will do so in all future times."[2]

1. Ibid., 1:313, 320.
2. Ibid., 1:327-328.

IV.

Labor Power and Labor Pain

Whitaker has pointed out that the early labor economists confused the three ideas of cause of value, regulator of value and measure of value, basing his distinction in Wieser's suggestion that Adam Smith put together two theories, a philosophical and an empirical theory, which contradict each other.[1] To this insight I am indebted for the major classification that follows. Smith's "philosophical" view, however, I submit, consisted in his personification of labor and nature, and this personification controlled his empirical view, leading him to contend that the actual historical development of European economic policy was exactly the opposite of the natural order.[2] The natural order would have been one in which history would have worked out along the principles of a divine reason which intended abundance of goods and happiness of man, and his empirical and historical chapters were intended to show how man, by collective action, had inverted the natural order. His so-called "inductive" method was not inductive. It was a collection of illustrations designed to show that mankind had reversed the natural sequence of events. Nature began with liberty, security, equality. But man had begun with slavery, inequality and subordination of individuals to collective action.

1. Wieser, Friedrich von, Natural Value (tr. by Smart 1895); Whitaker, Early Labor Theories of Value, 19 Col. Univ. Studies, (1909).
2. Cp. Leslie Stephen, Criticism of Smith.

So with his personification of Labor. Labor was conceived carrying on an exchange with beneficent nature that works along with man, and then the laborers exchange their products with each other, not according to the natural order, but under regulations of collective action in violation of the natural order. For these reasons his personification of labor and nature was a personification of all the bargaining, managerial and judicial transactions which we have noted, but without any collective action whatever, which he considered artificial and contrary to nature. It was these personifications that made his theories an economics of man's relation to nature, instead of man's relation to his fellow-men.

In this way Smith's Causes of Value were individual human wills dealing with a divine will that governed nature; his regulator of value was an ideal of "real value" in dealings with nature and reasonable value in dealings with men, which would have been attained if collective action had not intervened; and his measure of value was a personification of what would have been a stable measure of value if collective action had not intervened.

It is impossible to separate the three ideas of cause, regulator and measure, since, if a cause or regulator is to be described quantitatively, the description can be made only in terms of measurement. Modern physical science has abandoned the ideas both of cause and regulator and contents itself with repetition and measurement. This also is becoming the attitude in economics under the influence of statistical method.

It is evident, however, that cause and regulation cannot be eliminated from economics because it is a science of human volitions. Cause, regulation and even measurement, are ideas derive-

from human purpose, which other sciences attempted to eliminate. But if economics deals with human beings primarily, then these purposes directed to the future are the subject-matter of investigation. Locke, Quesnay and Smith were not mistaken in the search for causes -- their mistake was in their personification of nature as the cause, the regulator and measurer, where they should have sought it in the transactions, the customs, working rules and collective and individual action. They placed causation in the past whereas it should have been placed, as by Hume and Peirce, in the future. They sought for a regulator in some ultimate or fundamental cause, which with Locke, Quesnay and Smith was a benevolent nature and with Ricardo was physical mechanism, rather than in the superficial phenomena of human behavior. They sought for a measure in terms of this ultimate, natural cause, whereas measurement is a purely artificial and collective human device of constructing arbitrary units by which the world's behavior can be reduced to the language of numbers.

1. Cause of Value.

"The word Value it is to be observed," said Smith, "has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be named 'value in use'; the other 'value in exchange'. The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the other hand, has scarce any value in use; but a very great

quantity of other goods may frequently be had in exchange for it."

(1) Cause of use-value.

We have used the term labor-pain as equivalent to Smith's "toil and trouble", and distinguished it from labor-pain, which, however, he had made equivalent to labor-pain. Smith did not develop separately a theory either of labor-power or use-value, because his theory of abundance flowing from the beneficence of nature did not call for a theory of power to overcome nature's resistance, as was required by Ricardo when he contemplated her niggardliness. Yet, by examining his theories of production and exchange we may infer what he means by labor-power and use-value. Thus inferred, his idea of use-value was John Locke's dualistic idea of the mind within reflecting copies of the world without. The physical world without was use-value. The psychological world within was happiness. So with his idea of labor pain. The quantity of product created by labor-power was accompanied by a parallel pain within. We may name this Lockean theory, Psychological Parallelism, and it may be diagramed as follows:

Figure ---

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Happiness
:
:----------Use-value----------
:
:
:--------Quantity of Product--------
:
:
:----------Labor Pain----------
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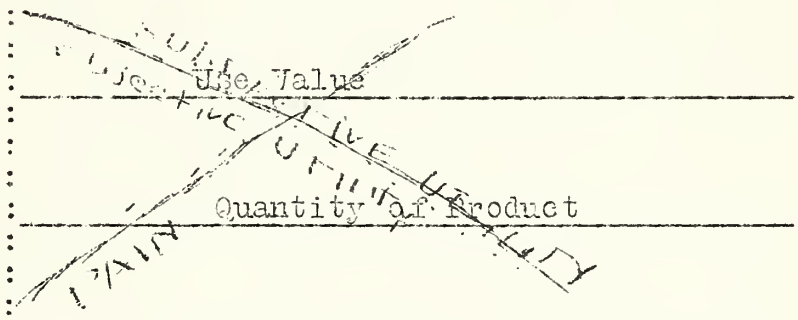
An increase in the quantity of product is an increase in the quantity of use-value and this is paralleled[1] by an increase in the happiness of consumers. The assumption back of it is that human

1. Smith, Ibidl, 1:30.

wants in general are unlimited. But the increase in quantity of use-value is parallel/ed by an increase in the toil and trouble of labor, and this places a limit on the quantity produced.

To this theory of psychological parallelism may be contrasted the modern theory of functional psychology as follows:

Figure----



The assumption here is that the want for a particular commodity is limited. An increase in the quantity of a given product, instead of being accompanied by a parallel increase of happiness in general, is accompanied by a diminishing pleasure per unit of that product. This is a functional relation between the intensity of the feelings within and the supply of the product without. Subjective utility and objective utility are functionally dependent on each other.

So with the pain of production. An increase in the quantity produced is accompanied, not by a parallel increase of pain in labor, but by an increasing pain per unit of product. Hence the idea of a margin where diminishing pleasure (utility) meets increasing pain (disutility), a functional concept not known to Adam Smith. It is upon this functional psychology that the meaning of scarcity value is based, while the meaning of use-value is based on psychological parallelism.

The meaning here assigned to use-value is confirmed by the historical meaning of the two words "weal" and "wealth". Cannan has

pointed out that the term wealth is etymologically but a longer form the word "weal", and that wealth in the older sense signified the kind of welfare that is "so dependent on the possession or periodical receipt of certain external objects, such as bread, meat, clothes or money, that the word came to be applied to those objects themselves as well as the state of body and mind produced by access to them." When Adam Smith adopted the word wealth, its use to indicate the object instead of the weal "had become so common that lexicographers forgot to mention the older sense".[1]

This agrees with what we find in the 16th and 17th centuries, culminating in John Locke. Common weal and Common wealth were used interchangeably and each had also the political meaning of a government, besides the economic meanings of common welfare which paralleled the physical meaning of commonwealth.[2]

When it came to Adam Smith, we may infer, his term valu-in-use had the similar meaning, weal and wealth -- weal, the subjective use-value, or happiness, that paralleled wealth, the objective use-value. But Cannan also points out that when it came to Adam Smith, Ricardo and all the physical economists, wealth had also come to mean exchange-value[3] - a fatal extension of meaning, for it was this three-fold meaning of weal, wealth and exchange that became the meaning of use-value as understood by Proudhon, Marx, the American Greenbackers, and in fact by all paper money theorists who demanded a supply of money equal to the abundance of values produced or owned.

From the foregoing we conclude that Smith's meaning of use-value was that of a physical value which does not decrease, per unit, with abundance nor increase per unit with scarcity, contrasted with

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1. Cannan, Edwin, Production and Distribution, 1776-1848, p. 1 (189[illegible]
2. The interchangeability of these meanings is evident in "A Discourse of the Common Weal of the Realm of England", written in 154[illegible] (Reprinted and edited from the Mss by Elizabeth Lamond, 1893).
3. ibid., 5.

the later meanings of scarcity-value which diminishes per unit with abundance and increases per unit with scarcity. Use-value is abundance value, but functional value is scarcity value. In short, use-value is what the economist means by "goods".

If so, then use-value or goods, may be described as a kind of value, which changes with physical and cultural differences, but not with supply and demand. Physically the differences are differences in kind, as shoes or wheat; differences in quality, as spring wheat or winter wheat, grade 1 or grade 2; differences in deterioration, depletion or exhaustion, such as wear and tear. The cultural variables are psychological, in that they are differences or changes in style or fashion, religious changes, or civilization changes from arrows to dynamite. They may be summarized as obsolescence and innovation.

In other words use-value is a physical and not a scarcity attribute of things or persons, but, like scarcity, it also has a psychological relation. Its value depends upon its physical qualities but not upon their quantity, and upon the character, but not the quantity of commodity wanted. Hence use-value should be defined in the same way as the color or shape or weight, or bulk of objects. Use-value has indeed quantitative dimensions, but these are physical quantities, with units of physical measurement, such as yards of cloth, cords of wood, kilowatts of electricity.

It will be seen that in this meaning of physical use-value, while it has objective and subjective references and is therefore the idea of relation between things that satisfy human wants and the wants themselves, yet there is no idea of the actual dependence of the individual upon having a greater or less quantity of a particular use value here and now. It is John Locke's dualistic idea, weal and wealth, weal existing in the mind, reflecting wealth existing in

physical things and increasing with abundance.

What then is the cause of this use-value? It is anything which increases the abundance of goods which are physical things having use value. There were, with Adam Smith, five factors which increased abundance -- Labor Power, Division of Labor, Exchange, Saving, and the Beneficence of Nature.

Karl Marx afterwards elaborated the kind of labor power implied by Locke and Smith, as manual, mental and managerial power. If we attempt to give them further precision, we should reduce them to terms of motion, in which case manual power means the power to move one's body or other physical bodies by the use of nerves, muscles, and bones. It is properly physical power, rather than manual power. It is the physical power to move things or self by direct contact.

But mental power is power to move things at a distance, in space or future time, by means of moving other bodies directly, such that the latter set in motion physical forces of their own. Tools, machines, prime movers are caused by mental power. Managerial power, likewise in terms of motion, is power to persuade, coerce, or command other people to move things by their physical, mental and managerial power.

Taken together, these three aspects of power are more properly to be named man-power, and such was indeed the meaning of Labor as employed by Locke, Smith and Marx, for their laborers were physical, mental and managerial laborers. It is man-power that increases the abundance of use-values.

But the greatest productivity of this man-power arises from division of labor, which permits specialization and requires exchange. Smith's entire work is a commentary on the increased productivity through the many varieties of division of labor, beginning with sho

division, then proceding to industrial, territorial and international division of labor, all of which require the exchange of products.

Consequently exchange is looked upon by Smith as the form that labor-power must take if it produces the largest amount of use-value. If labor-power is a cause of use-value, it can operate only within an environment that determines the kind and form which its product of use-value will take. It was Karl Marx who afterwards formulated these implications of cause, kind and form contained in Smith's idea of use-value. The cause, or "substance", in the terminology of Marx, is Labor Power. The kinds of use-value are determined by the physical and cultural conditions, such as shoes, food, books, arrows, dynamite. The form of value, with Smith, took the two forms, productive and unproductive labor, the former being the cause of products destimed for exchange, the latter of products for immediate consumption. Both were useful, but productive labor created use-value in the form of exchange-value, while unproductive labor created it in the form of immediate consumption.

Hence the form in which labor was productive was the form of exchange-value imposed by division of labor, and the form in which it was unproductive was the form of consumption goods which had no exchange value. And this is what is meant by a "commodity". A commodity is a use-value in the form of exchange-value.[1] Whatever facilitates exchange-value, without cost, augments production, and, for this reason, the banking system and paper money, which substitute a costless medium for costly gold, augment production.[2]

Herein Smith differed from Quesnay. Quesnay belonged to an

1. Cp. Marx, Capital, vol. I, Chap. 1.
2. Smith, Ibid. 1:279-283.

agricultural community whose prosperity turned on abundance of farm products at high exchange-values. But Smith, like Locke, belonged to a country both agricultural and manufacturing whose prosperity turned on the exchange of agricultural and manufactured products. Quesnay pictured the situation as a flow of commodities -- Smith pictured it as a territorial and occupational division of labor. Admitting, said Smith, that the revenue of every country consists in "the quantity of subsistence which their industry could procure for them," yet "by means of trades and manufacturers, a greater quantity of subsistence can be annually imported into a particular country than what its own lands, in the actual state of their cultivation, could afford. The inhabitants of a town, though they frequently possess no lands of their own, yet draw to themselves by their industry such a quantity of the rude produce of the lands of other people as supplies them, not only with the materials for their own but with the funds of their subsistence. What a town always is with regard to the country in its neighborhood, one independent state or country may frequently be with regard to other independent states or countries.... A small quantity of manufactured produce purchases a great quantity of rude produce. While, on the contrary, a country without trade and manufactures is generally obliged to purchase, at the expense of a great part of its rude produce, a very small part of the manufactured produce of other countries."[1]

Yet these low exchange-values of agricultural products and high exchange-values of manufactures were notoppressive to the farmers, provided there were no artificial scarcities intervening. They were the automatic and therefore natural exchange-values that followed the division of labor and the enlarged productivity of labor through

1. Ibid., 2:175

specialization. If the farmers had to do their own manufacturing then their crops would be reduced in volume. It was their increased productivity, through territorial division of labor, that made the low exchange-values of their products beneficial to the farmers themselves. They made up by enlarged productivity more than they lost by low prices. Smith's historical research respecting trade between town and country, between nations, and between nations and their colonies, abundantly demonstrated the reciprocal benefits obtained when exchange-values were permitted to conform to the differences in productivity of labor. While these matters became common place to the nineteenth century, yet it was a stroke of genius in the eighteenth century to have seized upon so simple and self-evident a fact as division of labor, efficiency in specialization and exchange of abundant products, in order to undermine the prevailing opinion and practices of both mercantilists and physiocrats.

Quesnay had made productivity turn on the mass of commodities having exchange value, and only the vital forces of nature can increase the mass. But Smith made it turn on the use-values of commodities having exchange-value, and labor adds use-values to the raw material produced by nature. Hence their differences as to whether it was the mass of commodities having exchange value, or the accrual of use-values upon the mass, that constituted wealth, caused them to agree in part but to differ considerably in their meanings of productive and unproductive labor. Productive laborers, for Smith, were those who produced for exchange with others, and Quesnay's productivity of Nature was also production for exchange.[1] Unproductive la-

1. Above p. 000, on Quesnay.

borers were those who produced for consumption by self or others, and this, for Quensay, made nature also unproductive. To be productive either nature or labor must produce use-values in the form of exchange-values, not merely use-values.[1]

Thus productive labor for Smith was that which produced exchange-value, or, more Marxian, that which produced use-value in the form of exchange-value. Only exchange-values constituted the wealth of nations, because these values existed only where division of labor was enlarging the abundance of use-values. Productivity was the production of use-values in the form of exchange-values.

But the form of exchange value has no significance except as it is a form that increases the abundance of use-values. Smith's idea of exchange-value furnished him with his most important discovery in combatting mercantilism, the distinction between effectual demand and money demand. Effectual demand consists in production of goods and not in possession of money, and this production is not effective as demand except in the form of exchange-value. The Mercantilists had argued that an increase of demand could be secured by increasing the supply of money. But Smith showed that money distributed itself to nations and sections only in proportion to the production of goods (use-values) for exchange. It is not money that creates effective demand for labor and commodities -- it is commodities -- and commodities are created, not by money, but by labor. It is productive labor, then, producing use-value in the form of exchange value, that is the effectual demand for other productive labor, and hence exchange-value is more than mere form of physical things -- is the form of inducement that all classes of productive laborers offer to each other to increase their productivity.

1. Ibid.,1;58 ff; 2:161ff

Smith's idea of effective demand turned on his introduction of Division of Labor. It was this that converted Quesnay's idea of circulation into a relation of "effectual demand". Quesnay could not construct such an idea in terms of nature. According to him the merchants and manufacturers merely extracted something arbitrarily, through the privileges of mercantilism, from the flow of circulation as it went along. But, according to Smith, the manufacturers, who accumulated use-values of commodities instead of consuming them, created thereby an effective demand, that is, power to command in exchange, not only other commodities but also labor. The augmentation by labor of use-value having exchange-value becomes a demand for labor itself and for other use-values produced by labor. And, seeing that it is use-values instead of masses of materials that labor wants, it follows that the total demand for labor is the total augmentation of use-values accumulated by capitalists and offered to laborers as subsistence and maintenance in exchange for the further use-values produced by them. Both the effective demand for labor and the effective demand for other products, including of course foreign imports, are limited by the quantity of use-values accumulated by capitalists and available for exchange. The wealth that is consumed in the instant of its production leaves behind no such power of command, which is effective demand. It has passed out of existence, and of course its exchange value, or power to induce commodities to be produced, has disappeared with it. But that which is created in a transportable and cumulative form becomes an effective demand for labor and other commodities. It actually comes out upon the markets and can be seen performing a demand, whereas that which is consumed, but leaves no equivalent reproduction appearing upon a market, is unproductive.

The term "productive" as used by Smith, is equivalent to effective demand, and the term "unproductive" means failure to create effective demand. Thus it is, not money, but commodities, not scarcity but abundance, not distribution but production, that creates effectual demand for money, for commodities, and for labor, and it does so only in the form of exchange-value.[1]

It was this idea of effective demand, through exchange-value, division of labor, and productive labor, that furnished to Smith his other great causes of abundance of use-values -- Thrift, Parsimony, Saving. Smith established for economic science the physical and legal equivalents of the process of saving. The legal equivalent is private property. The physical equivalent of saving consists in preserving, even for a few days, the output of labor and agriculture. The saving is not saving money, it is saving use-values. The merchant saves in the form of commodities. The farmer saves in the form of vegetables, grain and live stock. The manufacturer saves in the form of machinery and commodities. While the legal equivalent is private property, the physical equivalents are, not money, but commodities, improvements, machinery. And these are saved because they or their expected products have exchange-value and therefore effectual demand for other use-values in the form of goods and services.

In later days we look upon production as the effort to overcome the resistance of nature and yield any service that satisfies wants. But Smith had covered that idea in his willingness induced by property. His "productive" labor therefore was that labor which created a vendible commodity which could be saved and thereafter constitute an effective demand to the extent of its exchange-value.

1. Ibid., 1:269 ff. See below on Ricardo and Malthus.

The other kind of labor power was "unproductive", in that it created only a service that perished at once or, if it were a physical product it perished at home without coming out where it could be effective upon the markets. His use-values were inventories -- ort consumption goods. Production, for him, was not therefore the production of mere use-value. A use-value for him was an attribute that physically existed and could be accumulated and passed on in exchange. Production was the production of exchange-value -- a paradox it may seem, but not a paradox when we consider that it was not scarcity nor money that concerned him most, but it was willingness to create an abundance of use values for the sake of their effective demand for the commodities and services of other people and other nations. This was to be accomplished by means of productivity, thrift and exchange, instead of either the ineffectual demand of mere wishes or the mere purchasing power of money. Commodities are purchased by commodities, not by money.

Productive labor was the production of effective demand, but unproductive labor perished without leaving anything that the capitalist could save for the sake of its effective demand. Hence it is that the technological problems of production, efficiency, labor power, in the several later meanings of diminishing and increasing returns, balancing the factors, labor management, and so on, did not emerge for Smith. Both production and accumulation, for him, were simply the outcome of willingness to work, save, exchange, and thus increase the abundance of use-values.

It was this doctrine of Thrift, that marked a leading distinction between Quesnay and Smith. Accumulation with Quesnay was accumulation of physical quantities produced by nature, but accumulation for Smith was accumulation of use-values added to these physical

quantities. One was conservation of natural resources, the other was thrift. Hence while Smith agreed with Quesnay respecting all domestic servants, all officers of government, all sovereigns, professional classes, musicians, armies, navies, etc., whose work was admittedly useful and had exchange value, yet Smith's reason for considering them unproductive were different from Quesnay's. The work of these classes for Smith "perished in the very instant of performance "and therefore could not be saved,"but for Quesnay their work did not add to the volume of physical things, but actually deducted the amount of their exchange value from the value. Quesnay applied the same reasoning to "artificers, manufacturers and merchants". They were unproductive because they did not add to physical volume, but deducted from it. But for Smith their work was productive because it did not perish in the instant of performance and because it had an additional use-value having an additional exchange-value equal to the use-values which they consumed. Accumulation consists in saving this additional use-value in the form of commodities which can be circulated and bring back equivalent use-values.[1]

Nature, for example, produces fifty bushels of wheat from one bushel of seed, but when that wheat comes back from the miller in the shape of flour, the farmer finds that he gives up several bushels of wheat in exchange for the flour made out of one bushel. Quesnay stigmatized this deduction from the farmer's wheat as the exchange value of the unproductive labor of the miller. Smith dignified it as the exchange value of an additional use-value contributed by the productive labor of the miller. With Quesnay the miller was unproductive because his consumption of wheat reduced the

1. Ibid., 1:314; 2:173, 174.

the volume of wheat. With Smith the miller was productive because the augmented use-value of flour given to the farmer in exchange for his wheat was equal to the lesser use-value of the wheat given by the farmer to the miller. The miller saved the additional use-value of flour above the use-value of wheat, to the extent that he sold it to the farmer, instead of consuming it himself. Thus his labor is productive if it produces use-value to be consumed by the farmer.

Thus Smith's doctrine of saving is inseparable from his doctrines of labor power, division of labor, ,exchange value and use-value. Quesnay's process of circulation was itself, for Smith a process of saving instead of a process of deduction, since it was a process of augmenting use-value in the form of exchange value, which, when thus augmented, was "stocked up and stored up to be employed if necessary upon some other occasion".[1] It is not volumes of things that are saved -- it is volumes of use-values.

It is thus the saving of things that have exchange value that distinguishes productive labor from unproductive labor, and productive consumption from unproductive consumption, accumulation from consumption, wealth from poverty and effective demand from mere wishes. Productive labor is that which, through saving, accumulates use-values having exchange value. Productive consumption of use-values is that which is replaced by at least an equivalent accumulation of use-values from productive labor. This accumulation is merely saving, while wealth is abundance, not merely of use-values, but of use-values which have exchange-value in the form of abundance of commodities, improvements and machinery that are saved. Effective demand arises only when wishes are backed by commodities which have an exchange-value, and this is the meaning of "productive labor".

1. Ibid., 1:315

It is to be taken for granted that ultimately these accumulations of commodities will themselves produce consumable use-values, and that these improvements and machinery will enlarge the volume of exchange values and the volume of use-values. But these final use-values, whose abundance brings happiness, will be psychological when they arrive and as divergent as the tastes of consumers. Meanwhile, the important value is their stored up use-values having the form of exchange-value, that is, their enduring power of effective demand. Augment the quantities of use-values in the form of exchange-values, and the ultimate consumers' use-values may be left to individual psychology.

This concept is quite the same as the common-sense ideas still prevailing. The "productive" labor of a nation is, even to this day, considered to be that which produces commodities having exchange value on the markets, while that which produces for the home or farm is unproductive. This is doubtless because, in a society that depends on division of labor and has to pay taxes and debts, the important thing is to produce something that will command something else, and especially money, in exchange. Productive labor is even yet, as with Adam Smith, identical with saving or thrift and this is identical with storing up an effective demand for use on a market. But "unproductive" labor either perishes in the instant of performance, or its output is consumed on the premises. The term "productive" is not looked upon as signifying production for the use of consumers, but production for the use of sellers. This concept of productivity runs over into the business concept of "assets", a term having both legal and physical meanings, which is none other than a concept of the sum

of exchange-values of all physical, as well as intangible things owned by one who intends to sell them or hypothecate them as security. The employees of a business concern are not looked upon as producing satisfaction or happiness for ultimate consumers, but as producing marketable or bankable assets for their employers. In short, exchange-value is, even yet, the real value of commerce, and only those laborers are really productive who produce something that has exchange value.

But Nature also helps to increase the abundance of use-values. Herein Smith agreed with Quesnay, for value consists in abundance and not in scarcity. "In agriculture", said Smith, "nature labors along with man; and though her labor costs no expense, its produce has its value, as well as that of the most expensive workmen.... The rent of the landlord... may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmers.... No equal quantity of productive labor employed in manufactures can ever occasion so great a reproduction. In them nature does nothing: man does all...The capital employed in agriculture, therefore, puts into motion a greater quantity of productive labor than any equal capital employed in manufactures, but in proportion too to the quantity of productive labor which it employes, it adds a much greater value to the annual produce of the land and labor of the country, to the real wealth and revenue of its inhabitants."[1]

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1) Ibid., 1:343

Thus Smith's concession to Quesnay respecting the greater productivity of agriculture was as McCulloch afterwards lamented an abandonment of John Locke. Locke had made labor the producer of 99% of all value, and this was what McCulloch learned from Ricardo.[1] But Smith made nature also productive. Smith's concession to Quesnay turned on his meaning of abundance-value as against scarcity value. Abundance Value is physical use-value. He agrees that agricultural labor is more productive than manufacturing labor but asks us not to say that the former is "productive" and the latter "unproductive". Make it "more or less", not "yes and no". "As a marriage", he said, "which affords three children is certainly more productive than one which affords only two; so the labour of farmers and country laborers is certainly more productive than that of merchants, artificers and manufacturers. The superior produce of the one class, however, does not render the other barren or unproductive".[2]

Thus if we understand Smith's meaning of value-in-use, which he made equivalent to the "utility of some particular object", to be the physical attributes of objects, paralleled by the character of wants, but not dependent upon the supply or demand at a particular time or place for a particular object or individual, then its meaning is a kind of value that does not diminish, per unit with abundance , nor increase per unit with scarcity. The causes, therefore of value, when given this meaning, are the causes of abundance, and these are labor power, division of labor, exchange, saving and divine benevolence.

1) McCullosh, J.R. Literature of Political Economy, Ed. (1895)
2) Ibid., 2:173

2. Cause of Scarcity Value

a) Psychological Scarcity

Adam Smith took the common sense view that human wants are unlimited and therefore human happiness is limited only by the quantity of use-values produced for the satisfaction of those wants. But while Smith made use-value equivalent to the "utility of a particular object", he did not distinguish between the abundance of all useful objects and the abundance of a single useful object.

Here, however, is another common sense view, known, of course, to all the physical economists but not incorporated in their analysis simply because they did not distinguish the whole from the parts which compose it. It was not until nearly a hundred years after Smith that this distinction was made. Every one knows that the want for a particular object is not unlimited, but the want diminishes with an increase of quantity available at the time and place, going often so far as to become a nuisance instead of a utility, a pain instead of happiness. Everyone also knows that the intensity of a want for a particular object increases with a decrease in the quantity available when and where wanted, going so far as a matter of life and death. This dependence of the individual upon a particular object, which we name Scarcity Value, is properly distinguished as a functional psychology not cared for by Locke's prevailing dualism of mind within and world without. Hence the physical economists either disregarded this functional fact or minimized it, as did Quesnay with his "illusory wealth", or substituted a different explanation. This different explanation

required a cause that restricted output so as to prevent too much abundance. Ricardo afterwards found the natural cause of scarcity value in the niggardliness of nature, but Smith, for whom nature meant abundance, found his cause of scarcity value in the pain of labor.

"The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it...Labor was the first price, the original purchase money that was paid for all things. It was not by gold or by silver, but by labor, that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labor which it can enable them to produce or command.."[1]

Thus, while Labor power was the cause of use-values and tended towards abundance and lower prices, labor-pain caused a restriction of the supply of use-values and tended towards scarcity and higher prices. The difference between labor power and labor-pain is the difference between the cause of a kind of value that increases with abundance and the cause of a kind of value that increases with scarcity; labor-power causes use-value, labor-pain causes scarcity-value. If anything that increases abundance is a cause of use-value, then anything that restricts abundance is a cause of scarcity-value.

Smith's scarcity value was therefore partly avowed and partly implied. His avowed scarcity values were the artificial monopolies that restricted output, and their cause was collective action which prevented individuals from entering privileged occupations. His implied scarcity value was the restriction of output by individuals in a state of nature where there was no collective action, and the

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1) Ibid., 1:32,33.

cause of this natural scarcity-value was labor-pain.

He identified his avowed scarcity value with monopoly and identified monopoly with collective action, whether it be the state or private associations. This was his meaning of mercantilism. "Monopoly of one kind or another, indeed, seems to be the sole engine of the mercantile system".[1] Smith could not, therefore, like Hume, attribute private property to scarcity, since he had identified scarcity with the collective action of mercantilism. Collective action was an artificial cause of scarcity because it restricted the output of individuals. Since scarcity, however, is an evident fact, he must find in the breast of each individual a natural cause which restricts output.

Smith's laborer is pictured as having on hand a limited stock of "ease, liberty, happiness", a part of which he "lays down" in exchange (outgo) for a quantity of goods (use-value, income). This outgo, then, is a quantity of labor pain, that is, a deduction from a limited stock of happiness on hand. This was Smith's idea of "real price", "the original price", the "real cost", which must be paid for everything, and gave to everything its "real value". It is a personified price paid to a personified nature. And it was the inadequacy of income relative to this price that caused the laborer to restrict output and thus maintain a higher price.

In this respect Smith but followed common sense. Scarcity, in popular and empirical contemplation, is equivalent to difficulty of attainment from whatever cause, and therefore the greater the degree of scarcity the greater is the pain of labor, in terms either of greater intensity of effort or longer duration of work. This is true, also of exchange value. The pain of

1) Ibid., 2:129

producing something abundant in order to obtain in exchange something that is scarce, requires an amount of pain equivalent to that of the scarce object to be acquired. Hence labor, interpreted as pain, effort, toil, trouble, difficulty or attainment, increases with scarcity and diminishes with abundance. If the product is abundant, like air or water, there is little or no pain connected with its acquisition, and its value therefore is small. It it is scarce, like shoes or hats, then a corresponding amount of pain, either in intensity or duration of effort is required, and its value is great. Consequently, if we can eliminate all artificial scarcities, as is done when we eliminate collective action, then the degree of natural scarcity of objects desired is identical with the quantity of labor pain required to get the objects. The greater the scarcity the greater the labor-pain; the greater the abundance the less the labor-pain. Labor-pain is the common sense personification of scarcity and the cause of scarcity value. It is this which immediately "recommends itself" to each individual and thus Smith substitutes a personification of scarcity for Hume's "philosophical afterthought" of scarcity.

b) Proprietary Scarcity

But Hume's "afterthought" was not psychological scarcity ---- it was proprietary scarcity. Evidently a similar scarcity ratio of income to outgo may be derived from the proprietary standpoint and from the psychological standpoint. If the laborer is looked upon as a free laborer who owns his body, including its physical, mental and managerial abilities, then what he owns is a very finite, limited, and scarce fund of labor power.[1] His outgo now, not of labor pain, but of labor power, is a deduction from his

1) Cp Llewellyn, Carl, American Econ. Rev., March 1924. Llewellyn like Hume, makes this proprietary scarcity the basis of his correlation of law and economics. [illegible]

limited supply of man-power, which, because it is scarce, is entitled to the name given to all scarce objects held to the exclusion of others, namely, property. This was, in part, the i of John Locke. His laborer was a free laborer owning his labor-power, and when he mixed it with nature's abundant resources the resulting income of use-value became an augmentation of his property in recompense for the quivalent outgo of his property. Locke, however, did not inject this scarcity idea into his meaning of property, as did the more realistic Hume, because he was bent on the divine benevolence that asserted rights of property. But neither did he go back to the psychological roots, as Smith did.

The correct view, we take it, or the one that fits the historical development as distinguished from Smith's reversal of the historic process, is the one to be derived from Hume, namely the view based on scarcity, custom and sovereignty, and it is this which we name proprietary scarcity. Human labor is scarce and therefore, like any commodity, it will become the property of somebody. Custom and sovereignty determine who shall be the proprietor whether it shall be a slave owner whose property rights are unrestricted, or the master whose property rights are further restricted, or the master whose property rights are further restricted or the employer whose property rights are restricted by the Thirteenth Amendment, in America, which gives to the laborer a larger but not absolutely unrestricted field of exclusive ownership of his labor power.

If this proprietary scarcity is substituted for Smith's psychological scarcity then the whole relationship is changed from Smith's personification of a price, in terms of pain paid to nature

in exchange for a use-value derived from that personified-nature, to a repetition of transactions, wherein the relative degree of scarcity of man-power and products are determined, not by pain or by nature, but directly by the relative ability to withhold supply for any reason or no reason.

It is this Proprietary Scarcity which we name Economic Power. Smith himself took note of it. "Wealth, as Mr. Hobbes says, is power. But the person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys to him, is the power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market".[1]

This proprietary scarcity, thus commented on by Smith, has always been the live problem, and the question naturally arises, why, for more than a hundred years from Smith, the original "classic" economist, to the present day neo-classicists, did his personification of scarcity as labor-pain remain the basis of economic theory? The reply must be, the issue of mercantilism and all issues of various kinds of collectivism. Collective action caused artificial scarcity. Labor pain caused natural scarcity. Smith's labor pain, operating through division of labor and perfect individual liberty, was his substitute for the theories and practices of Mercantilism and all collective action. Mercantilism, whether political or through private associations, restricted supply artificially; labor pain would restrict it naturally.

1) Ibid., 1:33

What has happened, however, is that Smith's mercantilism, in all the forms of collective control through political parties or private corporations, syndicates and unions, has become more dominant than Smith could imagine. Scarcity is caused by the same political and proprietary collective action which he denounced as the artificial monopolies of mercantilism, and not by labor pain which he announced as divine rule of justice.

2. Regulator of Value
1) Reasonable Value

The various empirical policies known as mercantilism were developed along with the rise of monarchies and markets against the opposition of feudalism, and along with the accompanying experience that the new importance of exchange value as a means of livelihood for manufacturers and merchants, and of the revenues of monarchs, depended upon control of supply and demand. A centralized government in England furnished this control both for foreign and colonial markets and for the local gilds of manufacturers and merchants in the domestic markets. While this regulation was always exercised upon a preamble of public welfare, it always favored a privileged few whose private welfare was represented to be the public welfare. John Locke substituted the legislative for the monarch in the exercise of this collective control, but Adam Smith eliminated the collective control itself, both foreign and domestic.

Each based his argument on a return to the natural law of divine benevolence instead of the arbitrary regulation of supply and demand by the king, for Locke, by parliament and gilds, for Smith. Smith therefore required a natural regulator of supply and demand in place of collective regulation, and he found it in the breast of every industrious and thrifty manufacturer and

merchant. "The private interests and passions of individuals naturally dispose them to turn their stock towards the employment which in ordinary cases are most advantageous to the society. But if from the natural preferences they should turn too much of it towards these employments, the fall of profit in them and the rise of it in others immediately dispose them to alter this faulty distribution. Without any intervention of law, therefore, the private interests and passions of men naturally lead them to divide and distribute the stock of every society among all the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interest of the whole society".[1]

Thus Smith agreed with Quesnay regarding the problem of illusory wealth. Illusory wealth would correct itself because individuals would be compelled, against their natural preferences, if necessary, to change their labor from products whose prices were falling to products whose prices were rising. But while Quesnay dismissed the problem as inconsequential where Nature produced wealth, S ith showed how it would be done where labor produced the wealth.

In the first place, this state of nature is a state of perfect liberty, security and equality. Each individual can shift himself promptly from one occupation to another, and is not tied down by custom, habit, fear, or any collective restraint.

In the second place the wants of society as a whole are unlimited. This assumption can be utilized in two ways, either from the side of demand or from the side of supply. Smith employed both. The demand side is founded on his idea of effectual demand, the supply side on his idea of labor-pain. The two

[1] Ibid., 1:123

The demand side was later formulated by James Mill,[1] followed by Ricardo, although Mill added nothing but lucidity to Smith. If man's wants are unlimited, his happiness can be carried to unimagined extent by creating greater abundance of use-values. There would therefore be no decline in exchange-values if the different kinds of use-value were augmented proportionate to the new wants as they unfolded along with the new kinds and new expansion of use-values. Each augmented output of any other kind of use value and there could be no overproduction if production were permitted to expand to its greatest limit. If by division of labor, for example, every physical product could be doubled, by doubling the productivity of labor, then everything doubled in quantity would double the effectual demand for every other thing doubled in quantity, and there would be no decline in their exchange values.

But even this theory of unlimited abundance required a factor that would be effective in restricting supply of particular products if they became too abundant, and augmenting the supplies that were deficient, so that all prices would be regulated proportionate to the amount of this regulating factor contained in each. Ricardo afterwards found this factor in the marginal laborer. Smith found it in the toil and trouble of all laborers. His labor-pain as a cause of scarcity-value operates by restriction of output; his labor-pain as a regulator of scarcity-value operates by proper-tioning output among the different occupations so as to equalize the labor pain in all. As a cause of scarcity-value output is restricted when the income is believed to be too low relatine to the outge of pain. As a regulator of scarcity-value output is enlarged in some employments where the income is large

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1) Mill, James, Elements of Political Economy (1808) Smith

elative to pain, and restricted in other employments where the income is low relative to pain, so that the pain per unit of income is equalized. Pain, as a regulator, equalizes the ratio of income to outgo in all occupations by proportioning the output of each to that of the other. While pain as a cause of scarcity operates on particular employments, pain as a regulator operates on all employments.

Ricardo's marginal laborer, who afterwards regulated value, was the least productive laborer, and this fitted his theory of the niggardliness of nature. The marginal laborer was the one who worked against the greatest resistance of nature, and this laborer, in a free market, regulates the exchange-value of the product of other laborers where nature is more prolific, and also regulates the exchange value of all products, since all laborers shift from low paid to high paid employment. The productivity of the least efficient laborer regulates the exchange value of the output of all laborers.

But Smith had not reached the bald materialism of Ricardo, for whom labor was a machine and nature a niggard. His regulator of value must conform to the beneficence of nature and the equality of man. Man was condemned to labor---that was true---he was compelled to lay down a portion of his ease, liberty and happiness, in order that goods may be produced. But this should be done fairly. No individual should be compelled to suffer more than any other individual in his activity of producing, accumulating and exchanging use-values for the good of his fellow men. The existing state of society was not only inefficient, but also unjust, in that it regulated individuals arbitrarily by collective action instead of leaving them to be regulated automatically by

the invisible hand that had placed in the breast of each a principle of just distribution.

This principle was the ratio between income of use-value and outgo of labor-pain, that is, the "real price" paid for the use-value. The private interests and possessions of men lead them to distribute their labor among different employments, without the aid of collective action, in such proportions that this ratio of income to pain would always be substantially equal for all.

To accomplish this purpose of regulation, however, Smith had to eliminate the isolated individual, with whom he started, and substitute the average labor pain of all individuals at all times and places. In doing this his average labor pain became both a regulator of value and a measure of value, as follows:

"Equal quantities of labor at all times and places may[1] be said to be of equal value to the laborer. In his ordinary state of health, strength and spirits, in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labor which purchases them. At all times and places that is dear (scarce) which it is difficult to come at, or which it costs much labor to acquire; and that cheap (abundant) which is to be had easily, or with very little labor. Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which

1) Cannan notes that in Smith's first edition this read, "Equal quantities of labor <u>must</u> at all times and places be...."

the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price."[1]

Herein both the regulator of value and the measure of value, in a state of nature where collective action has been eliminated, becomes average labor-pain. He eliminates the personal differentials arising from differences in character, and the repetition differentials arising from differences in fatigue. Neither did the historical passage of time disturb his average pain. It is the same in the middle ages as in the eighteenth century. At all times and places the average laborer lays down the same portion of his ease, liberty and happiness during the similar unit of time. It is the average pain regardless of individuals, hours of labor, fatigue, time, place or race. Hence it is both a regulator of value in a state of nature and a stable unit for measuring value in the existing state of society. Labor-pain was no particular pain of any particular person--it was a mathematical formula endowed with toil and trouble.

It must be noted that Smith did not have Ricardo's idea of differentials but contented himself with these averages. Had he possessed Ricardo's differentials he might have come out at a similar result. Ricardo's labor-power, which caused, regulated and measured value, was the least efficient labor-power--the marginal laborer. This would have been equal, perhaps, to the most painful labor -pain. But Smith did not operate with differentials--he operated with averages, and these averages applied both to labor-pain and labor-power. If so, then each unit of labor-pain might be considered to be, on the average, equal to each unit of labor-power, on the average. And this seems to have been his view.

1. Smith, Ibid., 1:45

Each average unit of labor-power is accompanied by an equal average unit of labor-pain. In other words each unit of power which increases the quantity of use-value is accompanied by an equal unit of pain that resists the unit of power.

Of course, if the matter were left at that point, things would come to a standstill, and nothing could be produced. But they are not left there, except in the case of indolent laborers, the aged and the young. Smith's typical laborer had the ambition to work, accumulate and exchange induced by security of private property, and this overbalanced the pain-resistance. Hence he could pass from labor-power to labor-pain without error or catastrophy to his system, because private property created a willingness to work that subdued the pain of work. Yet this willingness was not without limit. Pain finally asserts itself and resists further outgo of ease, liberty and happiness.

Smith takes great pains with his process of averaging labor-pain, and this indeed is necessary because it is to serve both as a regulator of reasonable values and as a stable measure of real value. It is this average labor-pain that shifts the average laborer from one employment to another "in his ordinary state of health, strength and spirits", and thus tends to make the differences in pain imposed by these differences. This tends to equalize the inequalities in different occupations, so as to "make up for a small pecuniary gain in some employments and counterbalance a great one in others". These differences in occupations are hardship, cleanliness or dirtiness, honorableness or dishonorableness, ease or difficulty of learning the business, regularity or irregularity of employment, small or great trust reposed in the workmen, and probability or improbability of success.[1] All of

[1] Ibid., 1:102 ff.

These are accompanied by pecuniary differences of income, either as wages or as profits, but these pecuniary differences are reasonable if they coincide with differences in average labor-pain. And it is this average labor-pain, which by restricting the supply of labor in the more painful occupations and enlarging the supply in the less painful occupations regulates the pecuniary differences so that they coincide with the pain differences.

So, his regulation of value is a regulator of reasonable value, provided collective action is not allowed to intervene. If this collective action is eliminated then there will emerge divine benevolence, abundance, perfect liberty, perfect equality and security, such that exchange values will be regulated according to their real value. This "real value" is "reasonable value", but without the leading constitutents of reasonable value, namely, collective action, scarcity, money, custom and collective opinion. Reasonable value, as formed in the practices of courts, juries, commissions, arbitration arrangements, ans so on, is a concept of collective action in terms of money, arrived at by consensus of opinion of reasonable men, in that they are men who conform to the dominant practices of the time. Reasonable value changes with new conbinations of circumstances and collective control, and is in process of evolution through changes in efficiency, scarcity, custom, politics and dominant opinions. But Smith's real value in terms of labor-pain is an automatic principle that regulates behavior for the good of man, but without collective action. It is his personified substitute for the "just price" enforced by courts and arbitration.

The distinction turns on two concepts of willingness, the collective wills of going concerns and the individual wills of

private property. Smith conceived that in a world of abundance where individual property was perfectly protected against violence no conflicts over scarcity could occur. In such a world therefore it required only willingness of individuals and benevolence of nature to work out reasonable prices in the distribution of that abundance.

Having identified his automatic regulator of scarcity value with the quantity of labor-pain, Smith proceeds to inquire why it is that, upon the labor market, the price of labor does not, under existing conditions, coincide with the quantity of labor-pain delivered in exchange for the produce. All of these discrepancies will be found to be various aspects of scarcity controlled by custom, or sovereighnty or other collective actions, instead of regulated by quantity of labor-pain. They were, as already mentioned, the artificial or collective scarcities imposed by sovereighnty which grew out of the principles of mercantilism and conflicted with the principle of perfect liberty. Among these restrictions were exclusive privileges of corporations (gilds), long apprenticeship, understandings between competitors, free education at public expense, obstructing the free circulation of labor and stock (capital) by poor laws, state regulation of wages price fixing, tariffs, and bounties levied in order to maintain a favorable balance of trade.[1]

But even if these mercantilist interferences with liberty were eliminated there were still two other proprietary claimants, the landlords and capitalist employers, who, even under conditions of perfect liberty, prevented the accurate proportionment between labor pain and wages. These other claimants, who introduced the

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1) Smith, Ibid., 1:120-144

factor of proprietary scarcity, were examples of what we should name the Custom and Law of Private Property. "As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they have never sowed, and demand rent for its natural produce."[1] "The rent of land, considered as the price paid for the use of the land, is naturally a monopoly price."[2] And wherever, therefore, rent was paid, it was evidence of prices regulated by private property in disregard of labor-pain.

The same was true of profits. They were determined solely by supply and demand for capital amongst the owners. There was no question here of labor-pain or labor-power, and not even of any so-called labor or "inspection and direction". "Profits bear no proportion to the quantity of hardship, or the ingenuity of this supposed labor of inspection and direction."[3] They are regulated in three ways, two of which turn out to be special cases of proprietary scarcity and one a case of biological scarcity. First, by the value of the stock empolyed; second, by the combination of masters to keep down wages,[4] and third, by the general increasing or decreasing of wealth of the particular nation.[5] The value of stock was the quantity of raw material and subsistence for laborers, that is "circulating commodities", required relative to the number of employees, ranging in the illistrations given by Smith from

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1) Ibid., 1:51
2) Ibid., 1:146
3) Ibid., 1:50
4) Ibid., 1:68,69
5) Ibid., 1:70-75

L 35 to L 360 per employee. These differences are, in fact, relative scarcities of capital and labor. Evidently the profits per employee, in the latter case mentioned by Smith, would be ober ten times as great as in the former case, provided the rates of profit were the same.

And this is the second factor of scarcity in determining profits, for the rate of profits varies also with the ability and willingness of masters to combine in the joint control of their property -- a willingness and ability usually greater than that of the laborers.[2]

The third principle which, however, may keep wages continually above the natural price, is that of an increasing demand for labor owing to the increasing growth of wealth under abund- and natural resources compared with population, as in North America where there was a great "scarcity of hands" compared with a more nearly stationary country, like China.[3]

Hence, even in a state of perfect legislative liberty, exchange-values would not be proportionate to labor-pain, owing to the fact that rent and profits, arising from private property, were able to claim a share out of their exchange-values, and owing to differences in the pressure of population.

But even these were not all of the circumstances under which even in a state of perfect legislative liberty, exchange-values were determined by relative scarcity rather than by the amount of labor pain. In order that prices of commodities might be equal to the quantity of labor pain of each employment, three more general circumstances were necessary. First, the employments must be well known and long established in the neighborhood;

1) Ibid., 1:50
2) Ibid., 1:58
3) Ibid., 1:73

Secondly, they must be in their ordinary, or what may be called their natural state; and, thirdly, they must be the sole or principle employment of those who occupy them." That is, in order that wages may be equal to the toil and trouble, even after legislative restrictions, proprietary rents, profits, and pressure of population are eliminated, there must ve publicity, normality and independence, each of which introduces the factor of collective regulation of scarcity in the guise of custom or trade practices.

Lack of publicity, that is, Secrecy, prevents competitors from moving into the field where wages or profits are high, even though they have perfect legislative liberty to move. Normality, or the "natural State", is an elimination of changes in biological scarcity arising from the forces of nature, since "normality" is the absence of seasonal fluctuations of demand, as well as the variations of good and bad seasons in agriculture. The requirement of independence eliminates all complementary or integrated products by which the laborer supports himself without charging his labor up to his main product, such as products of home workers, cottagers, the house rents charged by families who take in lodgers, and the labor or out-servants to landlords. In other words, even though there is perfect legislative liberty of the individual, yet wages are determined by scarcity regardless of pain, in all cases of secrecy, fluctuations of seasons and complementary goods or integrated industries.[1]

1) Ibid., 1:118-120 Viner, in the article refered to above, interprets Smith as including within the "natural order" many of these exceptions which I interpret him as excluding from the "natural order". I hold that Smith excluded custom, all collective action and all exceptions not accounted for by labor pain. These were "artificial" and not "natural".

If, then, all of this array of exceptions be excluded, the question remains, is it not collective action, after all, that determines the value of labor itself as well as commodities? Smith excludes collective action only by "supposition". His condition of perfect legislative and proprietary liberty supposes that there are no interferences, no exceptions, no duties, no trade practices, no customs, or habits, no secrecy, no seasons, no complementary goods or integrated industries, no money or collective enforcement, such that each laborer is a physical phenomenon guided by increments of pain. Such a set of labor globules[1] will promptly transfer their labor-power as accurately as a flow of water from products whose prices are low relative to pain, to products whose prices are higher, thus tending to raise the price of the former and lower the price of the latter, so that the quantity supplied of each will be so regulated that a unit of labor pain devoted to one product will receive the same compensation as a unit of labor pain devoted to any other.

2) Liberty and Scarcity

Smith's defect resided in his double meaning of words--an ethical and an economic meaning. His ethical meaning was the justice that would obtain if there were no collective action and the injustice that actually obtained on account of collective action. His economic meaning was the abundance that would obtain without collective action and the artificial scarcity that is actually imposed by collective action.

Thus his term "liberty", for example, had both an economic and ethical meaning. Economic liberty was abundance, ethical liberty was freedom from collective compulsion. The state of nature was a state of liberty because it was a state of abun-

1) Cp Veblen

dance but not collective action. So with his meaning of scarcity His ethical meaning of scarcity was labor-pain as a regulator of reasonable value. His economic meaning was the artificial scarcities of collective action.

Hence the opposite of pain, for Smith, is not pleasure but liberty, in its double meaning of ethics and exonomics. Liberty increased as pain diminished, for liberty meant abundance of alternatives. Liberty decreased as pain increased, for pain meant scarcity of alternatives. This is the economic meaning of liberty. But the same liberty was the opposite of collective action. Liberty diminishes as collective action increases, or increases as collective action diminishes, for liberty is freedom from compulsion. This is the ethical meaning of liberty.

The ultimate defect lies in his identification of psychological scarcity with proprietary scarcity. His psychological s scarcity arises from the customs and laws of collective action that regulate the security and liberty of property-owners. Individuals do not choose between the alternatives offered by nature--they choose between the alternatives offered by proprietors. They cannot choose to work according to the amount of pain--they work or do not work according to the alternatives that custom and law permit proprietors to offer and withhold. The value of property consists in its scarcity-value, and therefore, with perfect liberty from collective action, the proprietor is perfectly free to reguse to produce and to withhold it from use by others when produced, which is the only way in which he can maintain its scarcity-value in the process of exchange. This is as true where there is free competition. Thus, even when all legislative compulsions are eliminated and proprietary

liberty is perfect, this proprietary liberty consists not only in Smith's inducements to abundance through productivity, thrift and exchange, but also in inducements to restrain too much abundance. But it is the abundance of alternative sellers that constitutes proprietary liberty for the buyers, and abundance of alternative buyers that constitutes proprietary liberty for the sellers.

Thus, in fact, proprietary liberty and legislative liberty are identical in their origin. Each proceeds from sovereignty and scarcity. They differ only in the parties who are authorized of restrained. In the case of legislative liberty the officials of government are restrained by law from imposing any restraints on individuals which might thereby change the relation of supply and demand. It is this restraint on officials that actually creates compulsion against proprietars. It follows that, in the case of proprietary liberty, the proprietor is at liberty to withhold supply, either of his services of his commodities, insofar as he is able and willing. It is this withholding of supply, that, to the opposite party, is both a greater or less liberty in his choice of opportunities, and, inversely, a less or greater scarcity of alternatives, and these alternatives are always the property of other people. It is not the psychological scarcity of pain but the proprietary scarcity of custom and law that regulates value.

It is this meaning of scarcity and abundance that gives the identical meaning to the legislative compulsions which Smith condemned and the proprietary liberty which he approved. Each is conditioned or the same economic fact of scarcity and abundance . The working man and the job giver have equal

legislative and proprietary liberty in that each has equal liberty to work or not work, to hire or not hire. The officials of government are required both to keep their hands off and keep other people off. But each may not have equal proprietary liberty because the alternative for one may be the onerous alternative of enlarging his total labor-pain as the price he must pay, while the alternative for the other may be only the inconsequential alternative of foregoing one out of hundreds or even thousands of laborers in filling the jobs in his concern.[1]

Other similar illustrations might be given in all of the transactions of buyers and sellers, landlords and tenants, financiers and business men. In order that there may be "perfect liberty" there must be, not only absence of legal duties, there must also be abundance and equality.

These many instances of proprietary scarcity which vary inversely to proprietary liberty, were eliminated from Adam Smith's concept of private property for the reason that he assumed, when all legislative scarcity depending on legislative compulsion had been eliminated, and all associated property with its economic compulsion had been also eliminated, and all inequalities had likewise been eliminated, then the division of labor among equal individuals would create such abundance through productivity, thrift and exchange, that there would remain no onerous alternative for anybody.

Thus Smith, like Quesnay, had in mind the Mercantilist policy of collective scarcity, and in this respect Smith's contrasted notion of automatic scarcity was a failure to distinguish the legislative from the proprietary meaning of deprivation of

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1) Cp. Legal Foundations p. 000 Coppage v. Kansas.

liberty. This libertyof choice of would-be competitors, in case of legislative scarcity, is limited by the legal duty to refrain from competition, and the liberty of choice would-be consumers or producers is limited by the resulting scarcity of goods or of raw materials furnished by preceding producers. Smith assumed that, when this collective scarcity should be eliminated then all scarcity would be eliminated by becoming identical with quantity of labor pain, and it would follow that economic liberty would be attained when legislative liberty is attained.

Yet the custom and law of private property itself is based upon scarcity of resources, whereas Smith conceived it to be based on a natural right to the products of one's own labor. In the latter sense the term "property" is equivalent to the legal meaning of liberty, since it signifies absence of collective compulsions on self but presence of compulsion on others, thus permitting one to do what one pleases with both the imput and output, the outgo and income, of one's own labor. But the scarcity meaning of property still remains, as the withholding of that which is scarce relative to wants. Yet, if, as we have indicated, the amount of labor-pain appears to be identical with the degree of scarcity in the state of nature, and if we may assume the same perfect statutory liberty in the social state, along with perfect equality, then it would follow that there also the scarcity meaning of liberty as freedom to choose between alternative buyers or sellers would diminish as scarcity increases, and increase as abundance increases. Liberty and scarcity vary inversely, if to liberty is given the scarcity meaning of choosing between abundant accessible alternatives, whether the abundance arises from absence of compulsion imposed by superior authority or from the division

of labor. If there is perfect liberty of choice there is no scarcity, for the object desired is so abundant, like air, that all consciousness of choosing disappears in the abundance of supply. And if there is perfect scarcity, which signifies no supply at all then there is no liberty.

Yet Smith's is the common sense, empirical view of the matter. The workingman who discovers that no jobs are offered to him except on onerous terms makes no distinction between scarcity of jobs and loss of liberty. He has, indeed, both the legislative liberty and the proprietary liberty of refusing to work, for he owns his labor-power. And the owners of the opportunities have the equal legislative and proprietary liberty of refusing to hire him. Each has the ethical meaning of liberty. But, back of each is the economic meaning of liberty. The workingman's liberty of choice increases with abundance of jobs and diminishes with scarcity of jobs, and, inversely, his resulting labor-pain diminishes with abundance, but increases with scarcity, of jobs. But it is the custom and law of property, not the abundance of nature's benevolence, that regulates. The regulation may be good or bad, wise or ignorant, just or unjust, but it is not pain, it is collective action.

3. Measure of Value

1) Real and Nominal Value

But Smith had something very real in view --- it was stability of purchasing power when collective action should be eliminated. "The price which he pays" in toil and trouble "must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labor which purchases them."

1) Above p 000

While, as we saw, labor-pain as Smith's regulator of value applied to a state of nature where there was no collective action now we see that, as a measure of value, it applies to the actual state of manifold collective action and existing money prices. He will measure, by this stabilized human nature, not only the inequalities, injustices, and accidents of the actual society, but also, the rents, profits and wages that regulate money prices. "The real value of all the different component parts of price, it must be observed, is measured by the quantity of labor which they can, each of them, purchase or command. Labor measures the value not only of that part of price which resolves itself into labor but of that which resolves itself into rent, and of that which resolves itself into profit."[1]

All money prices may fall continuously if all labor becomes more efficient or money becomes scarce. All money prices may rise if labor becomes less efficient or money more abundant or inflated by paper money. Some prices may rise and others fall. They may reach high prices owing to monopoly or low prices through competition. They may be extortionate or reasonable. Labor pain will measure their departure or coincidence with reasonable value. It is their value which diverges, not the value of the labor-pain, and the divergence is measured by larger or smaller quantities of pain required to purchase them.

Thus it is that Smith's measure of value turns on the distinction of real and nominal price. The real price is the outgo of pain, the nominal price is the outgo of money. The distinction is between the feelings of individuals and the artificial units of measurement collectively agreed upon by man.

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1) Ibid., 1:52 footnote.

If we examine these artificial units [illegible] have been standardized by custom or law for the purpose of reducing to numbers four dimensions employed in the science of economics. These are quantities of use values, degrees of scarcity, rates of output or income and lapse of time. All of these, indeed, have behind them intense human feelings of happiness, misery, pleasure, pain, hope, fear, justice, injustice, and these are, indeed, real values for economics, but we have for these feelings no units of measurement standardized by custom or law.

All measurements, therefore, are as nominal as money, just as all units of measurement are artificial. They are a form of language -- the language of number. They are signs, indeed, that intense feelings are happening, but they do not measure the feelings--they measure the behavior. Adam Smith would create a unit of feeling that would measure the justice and injustice of economic life. When he came to the actual affairs of life, he found himself measuring behavior in yards, tons, money, production, acquisition, exchange, and savings. All of these were nominal -- none were real.

But this is true only if the economic behavior of conflict and cooperation is nominal and only individual feelings are real. Units of measurement in economics are collective devices used to measure transactions for the three great social reasons of accuracy, security, and justice. These are real if transactions are real.

Every transaction employes two kinds of measurement, a physical measurement and a scarcity measurement. The physical measurements are of two kinds, quantities of goods and rates of output or income. The scarcity measurements are of two dimensions of time, the present moment and the future lapse. It was not un[illegible]

Karl Marx that the rates of output were reduced to measurable dimensions, and not until Bohm Bawerk that the future lapse of time was separated out as a measurable dimension. Smith's measurements were quantities of goods and present scarcity.

Every unit of measurement must be of the same character as the dimension to be measured. Use-values are the expected uses of "goods" and these are measured by physical units of tons, yards, bushels. Scarcity values are the prices of goods, and these are measured by the scarcity unit, the dollar. The two are always found together in all transactions. Wheat is $2.00 per bushel. Cotton is ten cents per yard. Pig iron is $30.00 per ton. The bushel, yeard, or ton measures the quantity of use-value. The dollar and cent measure their scarcity-value. We do not measure the scarcity of wheat by units of its own dimension. The price of wheat is simply the scarcity dimension of wheat in terms of a scarcity standard of value, the dollar, whereas the useful attribute of wheat is measured in terms of a quantity-standard, the bushel.

Each unit is standardized by custom and law as the first requisite of accuracy, security and justice in transactions. If a dispute arises and a court decides, then the court decides upon the basis of the legal physical unit and the legal scarcity unit. It is these legal units that are legal-tender. A legal tender of wheat is so may lawful bushels. A legal tender of its price is so many lawful dollars. Adam Smith's state of nature had no legal tender and no social units of measurement.

A certain commodity, gold, has been standardized by custom and law in its physical dimensions but not in its scarcity dimensions. Its physical dimensions are 23.22 grains of pure gold.

Its scarcity dimensions are its general purchasing power upon the markets. The two dimensions are separable, and have often been separated by the law which declares legal tender. Legal tender paper money has been substituted for physical quantities of gold as the measure of relative scarcities. But neither denominations of paper nor grains of gold are measures either of real value or nominal value, in Smith's sense of the feelings of individuals -- they are legal measures of economic transactions, where accuracy, security and justice are wanted. Paper and gold are measures of real value in the sense of the social feelings of security, insecurity, hope, fear, persuasion, coercion, command, obedience, that accompany transactions. They do not measure real value in the sense of an isolated individual dealing with the forces of nature. They are not nature's supposed units of labor-power or labor-pain -- they are artificial units of physical and scarcity dimensions imposed by the collective action of custom, law and courts. When Smith measured reasonable value by labor-pain he was measuring psychological scarcity, but money measures proprietary scarcity. Units of pain may, perhaps, measure subjective feelings in a state of nature, but money measures economic power, equality of opportunity, fair and unfair competition, reasonable and unreasonable values, in a state of politics and law. Reasonable value is reasonable scarcity-value measured in terms of money.

The error of Smith is that of starting at the beginning of things, either in time or in fundamentals, instead of starting with a cross section of a going concern in all its complexities, already built up, no matter how, by accruals from the past, and moving on to a future not yet finished but changeable within limi

by human collective action. The most of the institutions of this going concern are themselves the product of past efforts towards stabilization, the first requisite of which is accepted units of measurement. Smith's effort, like that of Locke and Quesnay, was an effort to find something ultimate, in the nature of things and divine reason, that already had a fixity and stability for all time. But as far as we know, for human purposes, there is no such stability. Everything is flying around wildly, regardless of man's security and expectations. The only stability that we know is that which man himself has created by collective action. Units of measurement are one of these instruments of stability, but they do not exist in nature. They are artificial structures devised by man for investigation and security. Smith could not find his unit of pain because man had not artificially constructed such a unit. Man had, however, constructed a unit of scarcity by collective action -- legal tender money. And it required more than a hundred years following Smith for economists to see the importance, and then to devise methods of stabilizing, that purely artificial, collective and "nominal" unit of measurement, the scarcity-value of money. And the reasons are the social reasons of making more accurate, secure and just the present and expected transactions. While the physical dimensions of gold had been reduced to a stable unit of measurement in weight by John Locke and Isaac Newton, near two hundred years elapsed before attempts were made to stabilize the scarcity dimension of gold in terms of purchasing power. What actually has been happening is the discovery that this, for Smith, very superficial measure of nominal value, is the very vital measure of scarcity values, for all transaction

It has thereby been learned that these scarcity values must be taken as embedded in an already going concern, through centuries of custom, property and sovereignty, experimented upon happily or disastrously, but capable of being artificially measured and then stabilized by collective regulation.

Hence it cannot be said that Smith's average labor-pain was fallacious. It was an average purchasing power, and, as such it is exactly the process of averaging which is followed with fair success, in modern times in constructing "index numbers" of the average movement of prices, either of commodities, wages, or stocks and bonds. Here, however, the unit is the average purchasing power of the dollar instead of the average pain of production. In the modern case the average is the scarcity of money relative to the average of the various degrees of scarcity of commodities, of wages, or securities. In Smith's usage it is the average scarcity of commodities in terms of the average pain of production. The principle of averages itself is sound enough and Smith anticipated the modern statistical process. His error was his personification of index numbers.

This error proceeded from his effort to obtain a stable measure of real value in terms of human toil and trouble, instead of a stable measure of scarcity values in terms of money. He wished to avoid a "pecuniary economy" by substituting a "welfare economy". The intention was good enough but too fundamental. A more superficial but pragmatic process is that of continuing the historic process of devising reasonable values and stable measures of value that shall more nearly approxim to human welfare objectively in terms of money rather than subjectively in terms of pain

Both reasonable value and a stable measure of value are welfare pecuniarized.

2. Transactions

If we refer to the formula of a transaction in Chapter I (Figure I, p 14 ff) we shall find that Adam Smith measured in terms of labor main three of the four economic dimensions of a bargaining transaction, namely Positive Value, Positive Cost and Negative Value (Value of Service). The fourth dimension, Negative Cost, does not appear until Bohn Bamerk distinguishes "utility cost" from positive cost. Smith's three dimensions are stated as follows:

"The real price of everthing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or goods is purchased by labor, as much as what we acquire by the toil of our body. The money or those goods indeed save us this toil. They contain the value of a certain quantity of labor which we can exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new production, is precisely equal to the quantity of labor which it can enable them to purchase or command...His fortune is greater or less, precisely in proportion to the extent of this power, or to the quantity of other men's labour, or, what is the same

thing, if the produce of other men's labor, which it enables him to purchase or command. The exchangable value of everything must always be precisely equal to the extent of this power which it conveys to the owner."[2]

Here the laborer, who, with Smith, is always a proprietor, is pictured, first, as a prospective buyer of a use-value to be acquired from nature by his own labor-power, and he measures the prospective price which he must pay in terms of the accompanying amount of labor-pain. This is the measurement of positive cost.

He is pictured, next, as already owing a use-value which he wishes to exchange for another use-value which, however, is "the same thing as the labor-power of others who produce that use-value". As an owner of the use-value to be given in exchange he is now measuring its value to himself by two standards, which however are equivalent, owing to the process of averaging.

First, the amount of alternative labor-pain which it would cost him if he produced it ("the toil and trouble which it can save himself.") This is its Negative Value, its dis-opportunity value the Value of the Service which others render to him by enabling him to avoid the pain of producing that other use-value himself.

Second, this other use-value obtained in exchange is a positive income for himself measured b y the labor-pain of others who produced it, which pain, however, by averaging, is equivalent to his own pain avoided. This is Positive Value.

Thus the real cost of everything, distinguished from its nominal cost, and the real value of everything distinguished from its nominal value, is measured by average labor-pain, whether it be a use-value produced by himself or by others, or whether it be his own labor-power or the labor-power of others, which "is the

1) Ibid., 1:32,33

same thing" as the use-value produced thereby.

In all cases it is not the labor pain of the past that measures value -- it is the labor pain of the future; for that pain comes into use as a measure only when he wants to acquire the object, whether by production or by exchange. It is the expectation of labor pain that measures real value.

It is this fact of expectation that permits a choice of alternatives, and thus gives rise to the negative concept of the value to self of avoiding an alternative pain. He can choose btweeen the pain of producing the object himself and imposing the pain on others. If he imposes it on others then his measure of value is the alternative outgo of pain which he "can save to himself". This alternative outgo of his own labor pain, which he avoids, is, of course, greater than the positive outgo of the use value or money he offers in exchange for the use-value which he wants, although it may be equal to the pain imposed on others. Hence he gains by buying the object instead of producing it himself.

This gain is a value to him, but it is a negative value -- the value of having an opportunity to avoid a larger amount of toil and trouble for himself by imposing it on others. This negative value is "value of service". It is the value of the service rendered by others to him, in that they, by performing the service for him, thereby enable him to avoid the heavier pain of performing the service for himself. The measure of the value of service is the amount of pain saved to himself, and this, according to Smith, is equal to the amount of pain endured by others in serving him.

it was this "value of service" idea that was afterwards discovered by Carey for the purpose of overthrowing Ricardo's theory of rent, and then appropriated by Bastiat for the purpose of overthrowing the socialists.[1] It is the idea of value proposed by all monopolists. A plumber says to a householder who complains of the high wages demanded, "But see how much it would cost you if you had to do it yourself." A railway corporation says to the public, "the value of our service to you is the higher cost you would have to pay if there were no railroads and you had to use dirt roads and wagons."

This idea of value of service is sound enough -- it is contained inevery bargaining transaction, as our formula (Figure 1) shows. The error is in Smith's personification of transactions asdealings between labor and nature in place of the actual transactions between proprietors. The alternative which Smith sets up does not exist even in his own state of division of labor. He pictures the pain "saved", that is avoided, as the alternative pain of producing the articles himself, so that the choice of alternatives is not that arising out of property rights and division of labor where it is a choice of a buyer between two sellers (B choosing between S and S', Figure I) but is a choice between producing the commodity himself and buying it from another. But a person does not make such choices, where division of labor has become compulsory. He chooses between buying it of one seller and buying it of a competing seller, if there is one accessible. The buyer does not "save" the alternative pain of producing it himself -- in fact with division of labor this alternative is prohibitive, and if it is taken as the measure of the value of service that one receives from the actual seller,

[1] Below, Bastiat.

then the value of the service received may be inconceivably great. This fallacy, which we shall name the fallacy of inaccessible options, was the one contrived by Carey and Bastiat and repeated by all the defenders of special privileges, as indicated above.

Smith avoids the fallacy by his averages which, of course, leave no place for choices. These are not given a place in economic theory until differentials are substituted for averages. He avoids the fallacy also by basing his economics on the relations of man to nature instead of the relations of buyers and sellers.

Thus Smith's labor pain is his personification of money as a measure of scarcity-value in its two aspects of bargaining power and choice of opportunities. But since his process of averaging left no true place for choices, Smith's measure of value became a measure only of bargaining power, or the power to purchase or command the services of other persons, owing to relative scarcities. Ricardo afterwards, for whom nature instead of pain was the cause of scarcity, substituted the least efficient labor power as the measure of value in place of Smith's average labor pain. This distinction between efficiency and scarcity seems to be the distinction underlying Hollander's contrast of Malthus' theory of commanded labor and Ricardo's theory of embodied labor.[1] Both were derived from Adam Smith, but commanded labor signified relative scarcities and embodied labor relative efficiencies.

If we now compare Wieser's and Whitaker's analysis of cause, regulator and measure of value, we can see how inseparable they are. Measurement is inseparable from regulation because it is by means of measurement that regulation os accomplished. And cause is not predetermined, it is the human purpose to be effected by

1. Hollander, J.E. See below p. 000;

measurement and regulation. While Smith pictured the causes of value to be derived from a benevolent and just purpose ruling the movements of man and nature, his causes were really his own purposes transferred to nature. His regulator was his ideal of a just regulation of value without collective action, but with liberty security and equality. His measure of value was his measure of reasonable value applied in criticism of the existing artificial and collective scarcity values.

V. OPINION

Smith contended that Hume's idea of public utility was not a motive of action for individuals, and so he substituted sympathy and self-interest for public utility. But public utility, for Hume, was public opinion, while public opinion, for Smith, became divine beneficence. It was this that placed sympathy and self-interest in the breasts of individuals and then regulated them for the public good. Thus Smith ruled out all collective opinion just as he ruled out collective action. Each individual constructed his own private opinions, whether of sympathy or self interest. And even that collective action which we know as public schools supported by taxes in order to mould the public opinion of the future was ruled out of his expected beneficent state of nature.[1]

Even the labor pain which was the divine instrument of regulation was not labor pain at all -- it was a "supposition" in the breast of each individual at the time when he was engaged in transactions with other individuals having equivalent suppositions. Money and goods, said Smith "contain the value of a certain quantit of labour which we exchange for what is supposed at the time to

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1. [illegible]

to contain the value of an equal quantity.... But though labor be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labor. The time spent in two different sorts of work will not always determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labor in an hour's hard work than in two hour's easy business; or in an hour's application to a trade which it cost ten years labor to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find an accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labor for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure but by higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life."[1]

It here appears that, after all, it is not labor pain that determines the value in exchange -- it is mutual persuasion, perhaps coercion if one party is more necessitous or less intelligent than the other, or does not have a better alternative, or if one party is not exposed to competition as seriously as the other. These inequalities, however, were ruled out of a state of nature where each party is perfectly free and perfectly equal to the other. Even so, it is a matter of opinion as to whether equal quantities of labor pain have found equal expression in the quantities or products given in exchange. Smith abandoned his labor standard in the statement of it. Labor pain was only an individual opinion,

1. Ibid., 1:32,33.

influenced by collective opinion, past, present or expected.

The only place where either Hume's public opinion, or Smith's sympathy, self interest and divine beneficence, can be investigated is in the transactions, whether bargaining, managerial or judicial and in the collective action of political parties, business concerns, labor unions, banks, that regulate the production, exchange and consumption of commodities. This is, indeed, the process of modern economics. Real value and reasonable value emerge out of transactions. The explanation to be made of Smith and his imitators for a hundred and fifty years may be given the name "fundamentalism". Transactions are too superficial, too familiar and commonplace. Philosophy must get back somehow to something more fundamental -- an ultimate philosophy of God, Nature, Reason, human instincts, physics, biology. The most familiar things are the last to be investigated. Yet it is those familiar transactions regulated by collective action that are the wages, employment profit, welfare, misery of nations and individuals.

CHAPTER VI.

BENTHAM AND BLACKSTONE

The year 1776 produced Smith's Wealth of Nations, Watt's steam engine, Bentham's Fragment on Government and the Declaration of Independence. The first was the philosophy of abundance, the second its instrument, the third the philosophy of happiness, the fourth its application. Eight years previous, Sir William Blackstone had published his Commentaries on the Laws of England, agreeing with Smith's divine origins but finding their earthly perfection in the Common Law of England. Jeremy Bentham's Fragment was his critique of Blackstone, substituting Greatest Happiness and Parliament for Divine Origins and Common Law.[1] This was followed, in 1780, by his Morals and Legislation, revised in 1789. Henceforth, for more than a hundred years, political economy separated itself from law and ethics, and law separated itself from happiness.[2] The law rested on past custom and collective action, economics on future utility and individual action.

Blackstone had shown, and even avowed, himself, according to Bentham, to be a "determined and persevering" enemy to reform of the laws of England as called for by the axiom of the greatest happiness of the greatest number. Instead of expounding the laws he justified them as derived either from "authority" that supported custom, or from an "original contract" on the part of the people to obey the sovereign. His justifications were his "reasons". Blackstone "takes upon him to give reasons in behalf of it.... The very idea of a rea-

1. Bentham did not originate the greatest happiness principle -- he got it first from Priestly, See Deontology.
2. Cp. Bonar, James, Philosophy and Political Economy, 218 (1893) Carter, John C., Law, its Origin, Growth and Function, 236 (1907)

son betokens approbation." Even when he officially adopts the reasons of others, "he makes them his own". If Blackstone had tested the laws of England by their tendency to promote or obstruct the happiness of the people, then his "reasons" would not have led to a "kind of personification, as if the laws were a living creature", or to a "mechanical veneration of antiquity", by "the merit of justifying a law when right, should have been thought greater than that of censuring it when wrong."[1]

Thus Bentham identified custom with tradition supported by authority, and rejected custom on this account. Judge every act, not by conformity to ancient custom but by its effect on the general happiness. Bentham claimed that his Fragment on Governemtn was the "very first publication by which men at large were invited to break loose from the trammels of authority and ancestor wisdom on the field of law."[2]

If custom is rejected, where, then, shall Bentham find his justifications of the laws, past or proposed? He will find them in his wishes. This was, in fact, where Blackstone found his justifications. He simply wished the laws to remain as they were. His definition of municipal law was indeed not a description of rights and duties, but was an opinion of right and wrong. "Municipal law" according to Blackstone, "is a rule of civil conduct prescribed by the supreme power in a state, commanding what is right and prohibiting what is wrong."[3] This opinion was founded by Blackstone on the law of nature, commanded by a Being of infinite power, wisdom and goodness. But it was, in fact, Blackstone's wish. "A great number of people" said Bentham, "are continually talking of the law

1. Jeremy Bentham's works, 1:230, Fragment on Government.
2. Bentham, ibid., 1:260 n.
3. Blackstone, Commentaries, Sec. II.

of nature; and then they go on giving you their sentiments of what is right and wrong; and these sentiments, you are to understand, are so many chapters and sections of the law of nature."[1] Blackstone had, in fact, used the word "wrong" in the double sense of the adjective wrong and the substantive duty.

If Blackstone wishes to follow ancestor wisdom, Bentham wishes to promote the general happiness. Wish is his own, as well as Blackstone's, ultimate criterion. "When I say, the greatest happiness of the whole community ought to be the end or object of pursuit in every branch of the law.... What is it that I express? -- this and no more, namely that it is my wish, my desire, to see it taken for such by those who, in the community in question, are actually in possession of the powers of government.... In making this assertion, I make a statement relative to a matter of fact, namely, that which, at the time in question, is passing in the interior of my mind. How far this statement is correct, is a matter on which it belongs to the reader, if it be worth his while, to form his judgment."[2]

Bentham makes plain that this is what he meant by his term "the principle of utility". Itis "a sentiment of approval or disapproval." It is an "act of the mind," a "mental operation" which, "when applied to an action, approves of its utility, as that quality of it by which the measure of approbation or disapprobation bestowed upon it ought to be governed." And that quality of action in question is its "tendency to augment or diminish the happiness of the party whose interest is in question.... not only of every action of a private individual, but of every measure of government."[3]

Thus Bentham's "principle of utility" is not merely his statement of pleasure and pain as an instrument of government -- the asser-

1. Quoted by Cooley, footnote, ibid.,
2. Bentham, ibid., 9:4 (Introduction to the Constitutional Code 1027)
3. Bentham, ibid., 1:1 (Morals and Legislation)

tion that individuals and governments ought to promote universal happiness --- a wish.

This wishing is also, according to Bentham, what the courts do when they change the laws by resorting to fictions. In the eyes of the lawyer a "fiction" is evidence of progress in the common law. In the eyes of Bentham it was a usurpation of legislative power by the courts. As stated by the lawyer, a fiction is resorted to for the furtherance of justice. The courts are confined to the administration of existing rules and they lack the power to change those rules. Thus they have "fre qhently avoided the injustice that their application to the actual facts might cause, by assuming, in behalf of justice, that the actual facts are different from what they really are --- The employment of fictions is a singular illustration of the justice of the common law, which did not hesitate to conceal or affect to conceal the fact, that a rule of law has undergone alteration, its letter remaining unchanged."[1]

But Bentham claimed, "a fiction of law may be defined -- a wilful falsehood, having for its object the stealing legislative power, by and for hands which could not, or durst not, openly claim it -- andm but for the delusion thus produced, could not exercise it. Thus it was that by means of mendacity, usurpation was, on each occasion, set up, exercised and established."[2]

This was true of the fiction of an original contract. "The people on their part, promised to the King a general obedience; the King, on his part, promised to govern the people in such a particular manner always as should be subservient to their happiness." But why the need of such a fiction when the real test consists in determining at what point the people are justified in resisting obedience? "They should obey so long as the probable mischiefs of obedience are less

1. 2 Bouv. 1213. 2. Bentham, ibid., 1:243 Fragment

than the probable mischiefs of resistance; why, indeed, taking the whole body together, it is their duty to obey just as long as it is their interest, and no longer."[1] "Suppose the constant and universal effect of ab observation of promises were to produce mischief? Would it then be men's duty to observe them? Would be then be right to make laws, and apply punishments to oblige men to observe them? .... Now this other principle that still recurs upon us, what other can it be than the principle of utility? 'The principle which furnishes us with that reason which alone depends not upon any higher reason, but which is itself the sole and all sufficient reason for every point of practice whatsoeyer."[2]

What, then, is the meaning of Utility? Bentham began where Hume ended. He converted utility into a sovereign force that rules mankind. Hume, according to Bentham, had employed the term with several meanings. Sometimes the meaning was "usefulness considered as an end, no matter what;" "sometimes the meaning was a quality inhering in a physical instrument, a machine, or house, or piece of furniture, where utility is conduciveness to the end that is sought;" sometimes it meant "pleasure as an end," but never indicating that avoidance of pain is also pleasure, and never intimating that the "idea of happiness is to be inseparably connected with the idea of utility." Neither did Hume derive from "utility" a criterion of "right or wrong", nor an "answer to the question 'What ought to be done, and what is left undone?'" Nor did he distinguish the utility that <u>is</u> from that which <u>ought to be</u>. Hume's enumeration of the virtues was a mere classification without showing the "proportion in which they are conducive to happiness." He introduces, "without any

1. Ibid., 1:270.
2. Ibid., 1:271-272.
3, Bowring's History of the Greatest Happiness Principle in Bentham' Deontology, 1:291-294 (1834).

attempt to show their relationship or dependence, pleasures, pains, desires, emotions, affections, passions, interests, virtues, vices and other entities, in the direst confusion."[3]

But Bentham simplified this confusion by converting all of these meanings of utility into a Force, or Energy that compels man to act. "Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand, the standard of right and wrong, on the other, the chain of causes and effects, are fastened to their throne. They govern us in all we do, in all we say, inall we think; every effort we can make to throw off our subjection, will serve but to demonstrate and confirm it. In other words, a man may pretend to abjure their empire; but in reality he will remain subject to it all the while. The principle of utility recognizes this subjection, and assumes it for the foundation of that system, the object of which is to rear the fabric of felecity by the hands of reason and of law. Systems which attempt to question it, deal in sounds instead of sense, in caprice instead of reason, in darkness instead of light."[1]

Bentham further simplified the matter by making private utility identical with public utility, whereas Hume set them in opposition. Where Hume had derived both self interest, which is private utility, and self-yielding, which is public utility, from the principle of scarcity, Bentham now derived public utility from Smith's self-interest and abundance. The "greatest happiness of the greatest number" was the sum total of the greatest self-interest of all. Instead of scarcity requiring subordination of self to the good of others, abundance permits the aggrandisement of self for the good

1. Ibid., 1:1.

of others. Smith's theories were correct except in the one particular where he had agreed with Blackstone, namely, the justification of an original state of nature, for which Bentham substituted utility. But Bentham's utility was not Hume's utility. It was the utility of abundance, not the utility of scarcity.

In the first place, the "community" is not an organized association which restrains individuals for the common good -- it is a figure of speech. "The community is a fictitious body, composed of the individual persons who are considered as constituting, as it were its members. The interest of the community then is, what? -- the sum of the interests of the several members who compose it."[1] And he substituted Parliament for the community.

In the second place, the wealth of the community consists, in the "sum of the particular masses of the matter of wealth belonging respectively to the several individuals of whom the political community is composed. Every atom of that matter, added by any one such individual to his own stock, without being taken from that of any other individual, is so much added to the stock of natural wealth."[2]

Thus the interest of the community is the physical sum of individual interests -- not an expectation of transactions between individuals as members of a going concern. And public utility is the sum of private utilities. Bentham's utility is Smith's subjective side of use-value, equivalent to the "enjoyment of wealth" and parallel to the objective use-values, equivalent to the "matter of wealth". Greatest happiness is greatest enjoyment, greatest enjoyment is greatest abundance. Public and private utility are identical on account of abundance, whereas, with Hume, they were opposed on account of scarcity.

1. Bentham's Works. 1:2. 2. Ibid., 3:40 (Manual of Pol. Econ.)

This became, for more than a hundred years, the mechanical concept of society of the classical and hedonic economists, revolted against by both the Marxian and Christian socialists. Starting with individual pleasures and pains, society is but a sum of individuals, and wealth a sum of physical goods. Economics was thus divorced from ethics, for there was no scarcity relation between one individual and any or all the others. In order to bring in ethical considerations, a new start had to be made involving "social relations". It became the dualism of individual versus society.

But if we start with transactions instead of individuals, we start with the social relation itself. And if we start with Scarcity instead of self-interest, we start with the functional relation of self-interest to the collective interests that require rules and regulations governing the shares each shall obtain from the limited opportunities available for all. The individuals now are members of a going concern, kept together by the inducements and sanctions of scarcity, and his membership is his repetition of transactions with others who also are members and which determine both the quantities produced and the shares each shall obtain of the limited total quantity produced.

Bentham then formulated the calculus by which this sum of individual interests, constituting the aggregate community interest, could be ascertained. Herein he constructed a common denominator, a unit of pleasure, including avoidance of pain, which should measure not only Smith's physical "matter of wealth" but also Blackstone's customs and laws. The value of everything, from food to religion, is reduced to the following computation of the variable number of units of pleasure which go to make up a given quan-

tity of utility:

1. The intensity of the sensation of pleasure or pain caused by the custom or the commodity.

2. The degree of risk, or certainty and uncertainty of that sensation.

3. The length of time during which the sensation is felt.

4. The futurity, or degree of propinquity or remoteness, expected to intervene before the actual sensation occurs.

5. The fecundity, or chance that the sensation will be followed by sensations of the same kind.

6. The purity, or chance of being followed by sensations of a different kind.

7. The extent, or number of persons who get the total quantity of pleasure and suffer the total quantity of pain to be derived from the commodity or custom.

If then, a legislator, or magistrate, or private citizen, wishes to consider the general tendency of his proposed act either in law, ethics or economics, he begins with any one person most immediately affected by it, and considers the "value" (quantity) of each distinguishable pleasure or pain produced by the act in the first instance; then the value (quantity) of those produced after the first, that is, the fecundity and purity of the first pain or pleasure; then he "sums up" the values (quantities) of all the pleasures and all the pains, takes account of the number of persons concerned and arrives at the general good tendency of the act, if on the side of pleasure, or general evil tendency, if on the side of pain.[1]

The foregoing has to do with pleasure as the <u>end</u> which individ-

1. Ibid., 1:16.

uals and governments should wish to obtain. But the same pleasures and pains are instruments which have the Force or Energy needed to obtain these ends. As instruments this energy is Motives and Sanctions.

Motives precede the act, in that the individual looks beyond the act to the expected consequences of it. The order of sequence seems to be as follows: (1) expected event that will probably cause pain or pleasure; (2) present belief that it will cause pain or pleasure; (3) present pain or pleasure occasioned by present belief;)4) present motive to avoid or obtain expected pain or pleasure; (5) resulting act of will to avoid or obtain expected pain or pleasure.

Bentham did not connect this sequence with a structural concept of the mind, and this was accomplished by James Mill, the pupil of Bentham and tutor of Ricardo, so that Bentham said: "I was the spiritual father of Mill, and Mill was the spiritual father of Ricardo, so that Ricardo was my spiritual grandson."[1] Mill explained Bentham's sequence of pain, pleasure, belief, motive and will by the "association of ideas," and constructed what his son, John Stuart Mill, described as an "intellectual physics or spontaneous chemistry of the mind."[2] Pain and pleasure are sensations that may originate from the same external sources, but association of ideas may pull one person in one direction, another person in another direction, according to the "disposition" of each. Bentham had explained the functioning of the mind; Mill's association of ideas explained its structure.[3] Its structure and function pro-

1. Bentham, ibid., 10:498
2. Mill, J., Analysis of the Human Mind (1828) preface by J.S. Mill, 1;viii.
3. Mitchell, W.C., Bentham's Felicific Calculus, 33 Pol.Sci.Quar. 161 (1918)

ceeded from sensations to ideas, then to associations of ideas accompanied by feelings of pain and pleasure, desire and aversion, then to muscular action. It was this association of ideas that connected up an expected pleasure with the economic instruments by which it can be obtained. "The sound of a violin is the immediate cause of the pleasure of my ear; the performance of the musician the cause of that sound; the money with which I have hired the musician the cause of the performance. The money is, in this case, the cause of the cause of the cause of the sensation, or the cause at two removes.... The mind is deeply interested in attending to the cause; that we may prevent, or remove it, if the sensation is painful; provide or detain it, if the sensation is pleasurable. This creates a habit of passing rapidly from the sensation to fix our attention upon its cause."[1]

It will be seen that, by reason of the fact that Bentham and James Mill explained the functions and structure of the mind by physical and chemical analogies, they could not introduce the scarcity concept of "diminishing utility" which Bentham noted, but left unsettled.[2] The result was, that, although Bentham seemed to introduce a psychological factor by means of his emphasis on pains and pleasures, it was merely an intellectual succession of ideas correlated with external physical forces, that caused, not pain and pleasure, but ideas of pain and pleasure. Hence, when he speaks of pain and pleasure he is really speaking of the physical objects that cause ideas. In other words, Bentham's concept of utility becomes identical with Locke's and Smith's parallelism of the world without and ideas within. It is this passive and intellectual concept of the

1. Mill, ibid., 2:184-188.
2. Mitchell, W.C., 33 Pol. Sci. Quar. 170.

human will that justifies Veblen's gay comment that the hedonic man, who is Bentham's man, is "a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire or happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire, as before. Spiritually, the hedonistic man is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him."[1]

With this passive concept of the will, moved by the force of expected pains and pleasures, it follows that the force itself, which moves him to action, acquires the name of Sanctions. "A sanction", says Bentham, "is a source of obligatory powers or motives, that is, of pains and pleasures; which, according as they are connected with such or such modes of conduct, operate, and are, indeed, the only things which can operate, as motives."[2]

"There are four distinguishable sources" continues Bentham, "from which pleasure and pain are in use to flow: considered separately, they may be termed the physical, the political, the moral and the religious; and inasmuch as the pleasures and pains belonging to each of them are capable of giving a binding force to any law or rule of conduct, they may all of them be termed sanctions."[3]

1. Veblen, Thorstein, "Why is Economics not an evolutionary Science" in the Place of Science in Modern Civilization, 73,74.
2. Bentham, ibid., 1:14n
3. Bentham, ibid., 1:14.

The "physical sanctions" are the powers of physical nature operating on the individual, "not purposely modified by the interposition of the will of any human being". But it is these sanctions, where there is an interposition of other wills, and even of the religious sanction, "insofar as the latter bears relation to the present life." In other words, the physical sanctions are land and commodities, and the physical sanction is equivalent to the physical term, use-value, which now becomes utility, or the sanctions of expected pleasure or avoidance of expected pain, operating through physical goods.

If these physical sanctions operated without the interposition of any other will, they are wealth, or rather, the "matter of wealth" in its two forms of subsistence and enjoyment. If they operate through the will of a judge or other person "according to the will of the sovereign or supreme ruling power in the state," then they are, not "matter of wealth," but "matter of security," presumably prisons, munitions, policemen's clubs, and so on. These are the political sanctions operating through their peculiar kind of use-value.

If they operate "at the hands of such chance persons in the community, as the party in question may happen in the course of his life to have concerns with, according to each man's spontaneous disposition, and not according to any settled or concerted rule, "then the binding force may be said to 'issue from the moral or popular sanction". Thus the moral sanction is not that of custom, nor any of the customary rules of concerted movements, but is the "chance" happenings upon individuals with whom bargains or other arrangements may be made.

Likewise the religious sanction issues from a "superior invisible being," employing the motives of expected pleasures and pain, "either in the present life, or in a future". If in the present life, then the religious sanction operates through physical instruments which embpdy "the powers of nature", presumably church buildings, bibles and paraphranalia -- another peculiar kind of use-value. Here also the concerted beliefs and movements of fellow-believers, the trials for heresy, and so on, which we associate under the names of custom and common law, do not appear in Bentham's classification. These fellow-believers are "chance" persons.[1]

It is with the political sanctions operating through the physical use-values of guns and prisons, that the bulk of Bentham's writings have to do, and his "moral sanctions" occur as accidents--the "chance" hitting upon other persons who are animated by the chance wishes that happen to be moving them around like himself.

These moral sanctions were partly allowed for by Bentham under the name of the "sanction of sympathy" which is "the pleasure or pain ... in the breast of some other person in whose well-being the person in question experiences an interest, produced by the force of the sympathetic affection." But he treated this sympathy as a kind of barter. "How can a man be happy, but by obtaining the friendly affections of those on whom his happiness depends? And how can he obtain their friendly affections, but by convincing them that he gives them his own in exchange? And how can he best convince them but by giving them these friendly affections in reality; and if he gives them in reality, the evidence will be found in his

1. Cp. Bentham, ibid., 1:14 (Morals and Legislation); 2:192ff. (The Rationale of Reward); 3:33 ff (Manual of Political Economy).

words and deeds." "The first law of nature is to wish our own happiness; and the united voices of prudence and efficient benevolence, add... seek your own happiness in the happiness of others." "He who secures for himself a pleasure or avoids for himself a pain, influences his own happiness directly; -- he who provides a pleasure, or prevents a pain to another, indirectly advances his own happiness."[1] Thus sympathy is a profitable exchange of happiness.

While sympathy could thus be explained in terms of self-interest, it was not so with duty. Here it is a one-sided transfer, with no pleasure to be obtained in exchange and only pain suffered for the sake of others. "It is, in fact, very idle to talk about duties; the word itself has in it something disagreeable and repulsive; and talk about it as we may, the word will not become a rule of conduct. A man, a moralist, gets into an elbow chair and pours forth pompous dogmatisms about duty and duties. Why is he not listened to? Because every man is thinking about interests... In the moral field it cannot be a man's duty to do that which it is his interest not to do.... When interest and duty are considered in their boradest sense, it will be seen that in the general tenor of life the sacrifice of interest to duty is neither practicable nor so much as desirable; and that, if it could, the happiness of mankind would not be promoted by it.... It may be safely pronounced, unless it can be shown that a particular action or course of conduct is for a man's interests, the attempt to prove to him that it is his duty will be but a waste of words." It is just because duty is not an effective motive that legislation, with its physical sanctions of reward and punishment is required. "All laws which have

1. Bentham, Deo ntology, 17, 18.

have for their end the happiness of those concerned, endeavor to make that for a man's interest which they proclaim to be his duty."[1]

"Pleasures, then, and the avoidance of pains, are the ends which the legislator has in view; it behooves him therefore to understand their value. Pleasures and pains are the instruments he has to work with; it behooves him therefore to understand their force, which is again, in another point of view, their value."[2] Thus the term "value" is shifted from Smith's pain to Bentham's pleasure, or rather the net income of pleasure after pain is deducted, and it is this net income of pleasure that is the force, or energy, which compels human action in all its manifestations. With this concept all commodities, services, money and even justice, sympathy and duty, which we may express by the two concepts, commodities and customs, are reduced to their common denominator of that invisible force, the net income of pleasure.

This net income is the Force that moves mankind. Its sovereignty is exercised by the two sanctions, Want and Enjoyment. "Want, armed with every pain, and even death itself, has commanded labor, had sharpened courage, had inspired foresight, had developed all the faculties of man. Enjoyment, the companion of every satisfied want, had formed an inexhaustible fund of reward for those who had overcome the obstacles and accomplished the designs of nature.... Before the idea of law was formed, want and enjoyment had done, in this respect, everything which should have been done by the best concerted laws."[3]

1. Deontology, 11.
2. Bentham, Works, 1:15 Principles of Porals.
3. Ibid., 1:303 (Civil Code).

Thus we see that Bentham eliminated Custom in three ways. He substituted the sovereignty of wants and enjoyment for habits and customs. He substituted "chance" individuals for the collective action of going concerns. He converted the behavioristic rights, duties, liberties and exposures of custom and law enforced by collective action, into the subjective wishes of individuals respecting right and wrong in the adjective meaning of the two words.

This elimination carries with it the elimination of his "moral sanctions" and his "religious sanctions," since it leaves these in the shape of a mere accidental concourse of individuals impinging on one another according to physical laws, and without any hopes or expectations of repeated transactions that hold together those of similar beliefs and interests, either in a going business, a family, a fraternity or a church.

The result is that there remain just two sources of sanctions, Wealth and Parliament -- the physical use-values of wealth, and the physical powers of sovereignty. The one provides coercive physical sanctions that control human behavior in the production, exchange and consumption of commodities, the other provides coercive physical sanctions that create and protect private property. There is no intervening collective action, nor rule of habit or custom, between the individual and the legislature or magistrate. Just as he merged all economics, ethics and law into the pleasures and pains of individuals, so he merged all kinds of inducements under the general name of Sanctions. Sanctions are any kind of pleasure and pain, whether physical, ethical, legal or economic, when looked upon as proceeding from external inducement to act.

Admitting the all-prevalence of pleasure and pain, yet for the practical purpose of dealing with situations, the generaliza-

tion is too abstract. Pleasures differ in kind, as Bentham allows, but it is these differences in kind that are important. The two most important differences met with in economics, are those founded on inducements offered by individuals to each other and the inducements offered by the various kinds of collective action. Pain and pleasure are found in each, and they are important motives appealed to. The distinction is preserved by naming the one Inducements and the other Sanctions. Inducements pertain to transactions between individuals, sanctions to the customs and rules of collective inducements. Bentham, like Smith, had no place for collective action, and, indeed, no place for the persuasions, coercions and commands of bargaining and managerial transactions. He was dealing only with individuals, sovereigns and commodities, and made no distinctions between the different kinds of pleasures and pains that distinguish individual action from collective action. His sovereign masters were pleasure and pain, not habit and custom.

What Bentham did was, by his chemical analogy, to give to pains and pleasures a physical existence, and this physical existence was -- money. Wesley Mitchell has shown how this was done. He quotes from Bentham's unpublished manuscript, unearthed in 1901 by Halevy:- "If then between two pleasures the one produced by the possession of money, the other not, a man had as lief enjoy the one as the other, such pleasures are to be reputed equal. But the pleasure produced by the possession of money, is as the quantity of money that produces it: money is therefore the measure of this pleasure. But the other pleasure is equal to this; the other pleasure therefore is as the money that produces this; therefore money is also the measure of that other pleasure. It is the same between pain and pain; as also between pain and pleasure... If we would understand one

another, we must make use of some common measure. The only common measure the nature of things affords is money... Those who are not satisfied with the accuracy of this instrument must find out some other than shall be more accurate or bid adieu to Politics and Morals."

Mitchell proceeds: "this formulation of the mental operation of an ideally perfect money-maker can be converted into a passable formulation of Bentham's hedonism by merely turning pecuniary into psychological terms. Substitute pleasure for profit and pain for loss, let the unit of sensation stand for the dollar, replace accounting by the hedonic calculus, interpret self-interest as the maximizing of net pleasures instead of net profits, and the transformation is complete."[1]

Thus Bentham's greatest happiness of the greatest number terminates in the greatest pecuniary profit of the business man. Yet it is not pleasure or pain that is measured by dollars -- it is scarcity. When pleasure and pain become dollars and cents, they shift from happiness to scarcity and this becomes the force, cause and regulator of human actions. Pleasure and pain are too fundamental. Our problem is the more superficial but behavioristic problem of what is actually done in a money and credit economy, influenced by scarcity, futurity and habit.

Bentham's pleasure and pain blur the distinctions. Pleasure, for him, is both positive income of pleasure and negative avoidance of pain. But the latter is choice of alternatives, the former is acquisition of income. Avoidance is choice of a greater instead of a lesser income, or of a lesser instead of a greater outgo. Acquisition and avoidance cannot be added together, they are two di-

1. Mitchell, Wesley C., "Bentham's Felicific Calculus", Pol. Sci. Quar. 161 (1918); "The Rationality of Economic Activity", Jour. Pol. Econ. 97 (1910) cp. Bonar, op. cit. 218.

mensions of the same act, which is a performance of one thing by avoiding another thing.[1]

Bentham's pleasure and pain likewise blur the distinctions between individual transactions and collective control, between inducements and sanctions, between self-interest and ethics, between happiness and scarcity, feelings and money. The problems of economics are more superficial -- they lie on the surface. But they are more specific -- they are the problem of buying and selling, borrowing and lending, hiring and firing, management and managing, plaintiff and defendant. They may all be resolved, indeed, into pleasure and pain -- but that is too fundamental and elusive, for then they dissolve into wishes. But practices and prices of collective and individual action turn on dollars, not wishes.

Bentham's "sovereign" also, was not an outcome of the habits and customs or other collective action of the mass of individuals who constituted his "community". His individuals were a population, not a people; "chance" individuals, not a going concern, and his sovereign was an outsider, not a part of the people. His sovereign was apparently quite absolute, in that he was free to choose the laws which he would enact, unrestrained by the habits, customs, corporations, unions, or political parties that put him there on the expectation that he would do their bidding. Bentham "wished" that this sovereign would adopt the general happiness principle. But sovereigns have acted differently. The British Constitution arose from conquest and the common law. The common law arose from the customs of the people insofar as selected by the judges appointed by the crown. Political parties now displace the crown and select the judiciary. Collective business organizations control political parties and habit more than happiness regulates politi-

1. Cp. Legal Foundations, p. 69, ff.

ticians and people.

Bentham reduced sovereignty to security, as he had reduced pleasure to money. Political Economy is both a science and an art. It is the science of pleasure and pain in the shape of wealth. It is the art of legislation employing the instrument of pleasure and pain, for the sake of "the maximum of wealth and the maximum of population."[1] This end is a "final cause"; the several sanctions of pain and pleasure are the "efficient causes or means."[2] The legislator, when inquiring more particularly in what the happiness of the body politic consists, finds that it is fourfold -- subsistence, abundance, equality and security.[3] Subsistence and abundance are the province of political economity. Security is the province of the law, and equality is secondary because there is a continual progress towards equality in a nation which prospers by agriculture, manufactures and commerce under the care of security. "Legislators have often shown a disposition to follow the counsels of equality under the name of equity, to which greater latitude has been conceded than to justice; but this idea of equity, vague and ill developed, has rather seemed a matter of instinct than of calculation."[4]

Security, then, is all that political economy demands of the law, and even "liberty" is but a branch of security. "Personal liberty is security against a certain species of injury which affects the person. Political liberty is ... security against the injustice of the members of government." Liberty, with Bentham, is a breaking away from custom and resting one's behavior on utility. In his "Defense of Usury", it is "blind custom" that is "the sole basis, which either the moralist in his rules and precepts, or

1. Bentham, ibid., 3:33, Manual of Pol. Econ.
2. Ibid., 1:14. Morals and Legislation.
3. Ibid., 1:302ff. Principles of the Civil Code.
4. cp. Williams, A.T., "The Concept of Equality in the Writings of Rousseau, Bentham and Kant. Col. Univ. Pub. 1907.

the legislator in his injunctions, can have to build on," when they prevent people from paying and receiving such rates of interest as they might freely wish. But "custom" is an arbitrary guide. It varies from age to age and country to country. "Mutual convenience of the parties, as manifested by their consent," and not the custom of my neighbors, nor the fiat of legislators, "is the only standard that tells whether borrower and lender are each obtaining the maximum of happiness under the circumstances."[1]

What, then, are the attributes of subsistence and abundance, with which political economy is concerned, and how do they come into existence under the care of security and liberty? They consist in physical objects rather than the services obtained from other people. These physical objects are created under the pressure of the physical sanction, namely, want and enjoyment. Nothing "can be added by direct legislation to the constant and irresistible power of these natural motives? But the law may indirectly provide for subsistence, by protecting individuals whilst they labour, and by securing to them the fruits of their industry when they have laboured."[2]

But these wants and enjoyments go further than subsistence. "After having raised the first ears of corn (they) erect the granaries of abundance, always increasing and always full.... Opulence does not arrest this movement when once it is begun."

And in what does this opulence consist? It consists of abundance created through one's own labor and not through the prices paid to others for their labor. For "in what does the wealth of society consist if not in the total of the wealth of the individuals composing it?"[3]

1. Ibid., 1:303, 304 Civil Code. 2. Ibid., 303.
3. Ibid., 1:304.

True enough, we may say -- but just as Bentham conceives society to be made up of self-contained human units, so he conceives the wealth of society to be the sum total of physical units owned by these individuals. This sum total is equivalent to "a lot of happiness". Just as money has dissolved into pleasure and pain, and scarcity has disappeared as the method of accumulating wealth, there results a physical concept of both wealth and happiness suited to a colonial or primitive period of isolated farmers and abundance of natural resources, but not to a society where one's wealth comes through marketing, buying and selling, and a price system dominated by the concerted movements of capitalists, laborers, merchants, bankers and governments.

What, then, does security, the principle object of the laws provide? "Law alone has been able to create a fixed and durable possession which deserves the name of Property. The law alone could accustom men to submit to the yoke of foresight, at first painful to be borne, but afterwards agreeable and mild: It alone could encourage them in labor -- superfluous at present, and which they are not to enjoy till the future.... The law does not say to a man, "work and I will reward you"; but it says to him "work, and by stopping the hand that would take them from you, I will ensure to you the fruits of your labor, its natural and sufficient reward, which, without me, you could not preserve. ... The idea of property consists in an established expectation -- in the persuasion of power to derive certain advantages from the object, according to the nature of the case.... The legislator owes the greatest respect to these expectations; when he does not interfere with them, he does all that is essential to the happiness of society."[1]

1. Ibid., 1:307ff.

Security, therefore, is the security that the laborer shall have in ownership of what his labor has produced. But, it is objected, the laborers have no property, and Beccaria has said, "The right of property is a terrible right, and may not perhaps be necessary." This is surprising from so judicious a philosopher. The poor, who have no property are far better off than they would be "in a state of nature". It follows that the legislator "ought to maintain the distribution which is actually established.... When security and equality are in opposition, there should be no hesitation: equality should give way.... The establishment of equality is a chimera.... the cry for equality is only a pretext to cover the robbery which idleness perpetrates upon industry."[1]

From these remarks it will be seen that Bentham's concept of property was the corporeal property of lands, buildings, tools, held for one's own exclusive use, and not in any wise the incorporeal or intangible property of modern society that consists in access to markets and obtains wealth by controlling the scarcities of services and enforcing the contracts to pay those scarcity values. And the objectionable doctrine of equality is interpreted to mean, not the equalizing of economic power and opportunities, but the dividing up equally the physical possessions of proprietors. It was primitive agrarianism.[2] Sucha levelling system is not only impossible in practice, as Bentham takes pains to show, but the desire to establish it has its roots, "not in virtue, but in vice; not in benevolence but in malevolence."[3]

1. Ibid., 1:309.
2. Op. Commons and associates, History of Labor in the United States, 1:000.
3. Ibid., 1:358-361. On the levelling System.

We may conclude then that when Smith's abundance and Blackstone's custom passed over into Bentham's utility, it furnished the economists with the following mechanical method of reasoning. Man is a passive, but selfish being, moved directly and indirectly by self-interest, under the name of utility, which is the net income of pleasure. Society is a sum of individuals whose pleasures and pains can be added, subtracted andbalanced by the quantity of commodities. Self-interest cannot harm anybody, on account of abundance. Money is an artificial measure of pleasure and pain employed in this accounting system. This pleasure and pain are imputed, by the association of ideas, to physical commodities. Since money is the only measure, we get closer to the thing measured when we state our theories either in units of the physical labor and physical commodities that constitute wealth, or in units of pleasure and pain that constitute utility and disutility; in either case we state our theory, not in units of an unstable measure of happiness, money, but in dimensions as constant as the forces of physics or chemistry. Political economy derives from the common law and from custom only useless traditions and ancestor-wisdom, and requires from statute law only security of physical possessions and contracts. This security must maintain things as they are, for any effort to introduce equality is both impossible and vicious. The laws of political economy, provided security be cared for, are nearly as accurate as the laws of gravitation, and can be reasoned out mechanically, like the equilibrium of physics, from sensations, ideas, pleasures, pains, associated as they are with the existing production and consumption, supply and demand, of commodities. Discover what commodities do and you know what man does.

In this calculation there are two fatal omissions -- scarcity

and custom. It was these omissions which classify Bentham with the physical economists, and prevented him from conceiving a functional relation of inter dependent scarcities controlling and controlled by individuals and groups associated in the national economy. An eighth dimension in his calculus of utility should have been the relative scarcities of different articles of wealth compared with each other, all of which are the private property of individuals modified in their control by custom and collective action.

And a ninth dimension should also have been added. This dimension of interdependent scarcities is objectively present for every preson who comes upon a market in the shape of a "going price"[1] determined by the custom of private property and existing scarcities. It is this going price that measures at that time and place the relative scarcities of the services which he offers or desires regardless of the pains to which he must submit or the pleasures which he may enjoy.

Had the two items, scarcity and custom, been included in Bentham's calculus, then his concepts of the individual, of society, of commodities, of wealth and of sovereignty would have been broken down. Each individual's activities would then have become a function of the activities of all other individuals, instead of a mere addition of production, transfer and consumption of physical goods. The total wealth of a nation would not have stopped as a mere sum of physical goods at a point of time, but would have become also a process of proportioning both the different kinds of goods and the different activities of producers by holding for self and withholding from others, individually and collectively.

The customs, which Bentham had eliminated as mere ancestor wisdom, would necessarily have come back in the practices of extortion, discrimination, economic coercion, inequalities of opportunity and bargaining power, corporations, holding companies, unions, in fact, all of the good and bad practices of a national economy which determine the going prices. And the function of sovereignty would have become not merely that of protecting the producers and owners of physical goods, but would have come back to something like the mercantilist policies of proportioning the activities of individuals, associations, and even of nations with regard to what was deemed, by the political parties and dominant interests to be the best for classes and nations.

It was not until the time of the psychological economists that the principle of scarcity attained a functional importance in the determination of prices. Bentham, indeed, recognized the principle of scarcity and abundance, but his application of it had nothing to do with prices nor with the functional dependence of individuals upon the supplies, demands and prices of all other individuals, nor with the trade practices and customs. His application of it pertained only to his discussion of security and the inequalities in the quantities of physical goods possessed by individuals. A larger quantity of commodities possessed by a wealthy person than a poor person does not increase his happiness proportionately, and the total happiness is greater where there is equality of possession than where there is inequality.[1] This principle might lead to a

1. "Throughout the whole population of a state, the less the inequalities between individual and individual, in respect to the share possessed by them in the aggregate mass or stock, of the instruments of felicity -- the greater is the aggregate mass of felicity itself; provided always that by nothing that is done towards the removing of the inequality, any shock be given to security." Bentham, ibid., 2:272, Civil Code.

system of progressive taxes or inheritance taxes, the latter of which Bentham advocated,[1] but the principle was not applied by him or the other physical economists to prices and markets.

Bentham's elimination of custom and scarcity, by substituting money in the guise of pleasure and sovereignty in the guise of wishes, prepared the way not only for the classical and hedonic business economists, but also for both the utopian and Marxian socialists. The utopians took over Bentham's "equality" which he had subordinated to "security", and the Marxians took over his sovereign and made it the dictatorship of the Proletariate. Neither custom nor scarcity functioned in their theories.

By eliminating custom and scarcity Bentham resolved economics and ethics into the wishes of independent individuals. Like Locke, Hume and Smith, as well as the entire school of individualistic moralists and economists who followed their lead through the nineteenth century, he was concerned with the individual process of arriving at moral and economic judgments and individual conduct. But if we consider the historical process by which custom became common law and even statute law, we find that it has been a collective process. Instead, therefore, of starting with an individual we start with the transactions between indiyiduals and the expected repetition of those transactions which, from the organized point of view is going concerns, and from the unorganized point of view is custom. Each transaction is in itself a collective process, and, in its most extreme simplicity cannot be resolved into individual units but requires the actual or contemplated presence of at least

1. "When property is vacated by the death of the proprietors the law may intervene... with the design of preventing too great an accumulation of property in the hands of a single person." Ibid., 1:302, 312.

five individuals who bear to each other the several relations of equal and unequal opportunity, fair or unfair competition, moral, economic or physical power, and the joint expectation of a decision of possible disputes by a fifth party representing the social group of which the five individuals are members.

This is the collective process of arriving at both economic and ethical judgments and conduct by the several participants concerned. The "conduct" of individuals, which formed the problem of ethics and economics, becomes the repeated, duplicated and expected transactions of many individuals, which is but another name for the collective conduct of custom evolving into the working rules of organized concerns for the decision of disputes. Lacking this historical, social progress of arriving at both economic and ethical judgments, the individualistic economists and moralists had to inject either a principle of divine benevolence, as did Locke and Smith, to take the place of custom and the common law, or, like Hume and Bentham, had to leave the matter in the realm of individual wishes and opinion.

But, beginning with the transactional point of view, we have for investigation the actual process, freed of the personifications of Locke or Smith, the skepticism of Hume and the physical analogies of Bentham. Each transaction is in itself a harmony of interests, a conflict of interests and an ethical regulation of the conflict. It is a harmony of interests, as contemplated by Smith and Bentham, because it is the reciprocal relation of rendering a service to each other. It is a conflict of interests, owing both to the competition for access to limited opportunities and the inequalities of individuals in their exercise of power. It is an ethical regulation of the conflict through the collective operation of rules and

decisions of disputes. And out of this regulation arises the current but changing ideals of equal opportunity, fair competition, equality of bargaining power, which constitute the combined ethical and economic problem of reasonable practices and reasonable prices.

Thus arises the volitional, distinguished from Bentham's hedonic concept of value -- not the traditional volitionalism of individualistic ethics, but collective volitionalism. This is a concept of choosing between opportunities that are scarce and is therefore a scarcity concept of the will, as against the introspective concept of pleasure and pain. These opportunities are the property of self and other people, and this property depends on the collective action, not only of the state, but also of corporations, syndicates and unions, that determine by moral, economic and physical sanctions what shall be the securities, compulsions, liberties and exposures of the individual in his choice of opportunities, exerc se of power and competition. It is a concept of membership or participation within a great variety of collective compulsions as against Bentham's mass of individualatoms added together to constitute his fiction, the "community". It is a concept of individual and collective action, governing and being governed, as against Bentham's passive individual, moved to act by accidental sanctions and an external sovereign. It is a concept of Blackstone's custom, common law, routine, "ancestor wisdom", even stupidity, and of money, credit, debts, taxes, practices and prices, as against Bentham's lot of "lightning calculators" measuring off a "lot of happiness."

THE MACHINE

It was Benjamin Franklin, who, in 1751, first proposed over-population as the cause of the wage system.[1] He had a practical purpose. It was an argument against England's colonial policy which prohibited manufactures in America. England need have no fear of competition from American manufactures, because a wage system could not arise in a land of abundant natural resources.

Franklin went back to first principles and started with biological scarcity, ending with proprietary scarcity. "There is no bound to the prolific nature of plants and animals but what is made by their crowding and interfering with each other's means of subsistence. Was the face of the earth vacant of other plants, it might be gradually sowed and overspread with one kind only, as, for instance, fennel; and were it empty of other inhabitants, it might in a few ages be replenished from one nation only, as for instance, Englishmen.... In coutries full settled, .. all lands being occupied and improved to the height, those who cannot get land must labor for others that have it; when laborers are plenty their wages will be low; by low wages a family is supported with difficulty; this difficulty deters many from marriage, who therefore long continue servants and single.... Land being thus plenty in America, and so cheap that a laboring man, that understands husbandry, can in a short time save money enough to purchase a piece of new land sufficient for a plantation, whereon he may subsist e family. such are not afraid to marry.... There are supposed to be no upwards of one million English souls in North America (though it is thought scarce

1. Franklin, Benjamin, 2 Works 311 "Observations Concerning the Increase of Mankind and the/Peopling of Countries" (1751,1755)

ghty thousand has been brought over the sea! and yet perhaps there is not one the fewer in Britain, but rather more, on account of the employment the colonies afford to manufactures at home... But notwithstanding this increase, so vast is the territory of North America, that it will require many ages to settle it fully; and, till it is fully settled, labor never will be cheap here. Here no man continues long a journeyman to a trade, but goes among those new settlers, and sets up for himself.... In proportion to the increase of the colonies, a vast demand is growing in British manufactures, a glorious market wholly in the power of Britain, in which foreigners cannot interfere. Therefore Britain should not too much restrain manufactures in her colonies... The labor of slaves can never be so cheap here as the labor of workingmen is in Britain.... Americans purchase slaves because slaves may be kept here as long as a man pleases or has occasion for their labor; while hired men are continually leaving their masters (often in the midst of his business) and setting up for themselves.... The danger, therefore, of these colonies interfering with their mother country in trades that depend on labor, manufactures, etc., is too remote to require the attention of Great Britain."

Franklin's argument fell unnoticed, and Malthus did not discover it until he revised his Essay on Population for the second edition in 1803. The argument now was not, like Franklin's, a futile petition to England, but, like Franklin's, it had a practical purpose though more sweeping. It was the disillusionment of the liberty, equality and fraternity that produced the French Revolution and was being imported into England by William Godwin

The French had logically combined Adam Smith's self-interest with his sympathy, and, under the name of liberty, equality and fraternity, had abolished landlords, church and all collective action of guilds, corporations and any other association. Godwin, in 1793, in his essay on Political Justice, had carried Smith's rejection of collective action into a rejection of the State itself on which Smith had relied for security and had carried out Smith's natural liberty, equality and sympathy into the equal perfectibility of all men if only the organized coercion of government that afforded Smith's security were eliminated.

Malthus, five years later, brought against Godwin's natural equality of man the natural sinfulness of man, which should be expected to nullify all schemes based on the supposed liberty, equality and sympathy. He converted Smith's divine abundance for the purpose of human happiness into divine scarcity for the purpose of evolving the human mind and moral character out of the clay of the earth. Not only the wage system, but also vice, misery, poverty and war were incidental to the divine principle that population should increase faster than the means of subsistence. This he named the "principle of population", and it is this principle that is the basis of the "mighty process of God for the creation and formation of mind; a process necessary to awaken inert, chaotic matter into spirit; to sublimate the dust of the earth into soul; to elicit an aethereal spark from the clod of clay." We should "not presume to reason from God to nature", as, it may be noted Locke, Quesnay and Smith had done, but "should reason from nature up to

1. Malthus, T.R., An Essay on the Principle of Population as it affects the Future Improvement of Society, 353 (First ed. 1798)

ture's God", whose "thoughts are above our thoughts as the heavens are high above the earth."[1]

That which first awakens the mind in this divine process is the stimulus of wants of the body, for the mind is created only by activity. "It can scarcely be doubted, that these stimulants could not be withdrawn from the mass of mankind, without producing a general and fatal torpor, destructive of all the germs of future improvement.... To urge man to further the gracious designs of Providence, by the full cultivation of the earth, it has been ordained, that population should increase much faster than food."[2]

Thus divine abundance of Quesnay and Smith becomes the divine scarcity of Malthus. The one would leave man a lazy savage, the other makes him work and think.

But it is not only self-interest, it is also sympathy that springs from overpopulation. "The sorrows and distresses of life form another class of excitements, which seem to be necessary, by a peculiar train of impressions, to soften and humanize the heart, to awaken social sympathy, to germinate all the Christian virtues, and to afford scope for the ample existence of benevolence.... It seems highly probable, that moral evil is absolutely necessary to the production of moral excellence."[3] The principle of population "undoubtedly produced much partial evil; but a little reflection may, perhaps, satisfy us, that it produces a great overbalance of good."[4]

But it follows that all men cannot be equally free and perfectible in this life. It is the "middle regions of society" that are best suited to this intellectual and moral improvement. Both luxury and poverty produce evil rather than good; yet we cannot have middle

1. Ibid., 350.
2. Malthus, Ibid., 356ff.
3. Ibid., 372 ff.
4. Ibid., 361, 362.

classes without having upper classes and lower classes. "If no man could hope to rise, or fear to fall, in society; if industry did not bring with it its reward, and idleness its punishment, the middle parts would not certainly be what they are."[1]

"Godwin," said Malthus, "considers man too much in the light of being merely intellectual" -- as, we may add, also did Locke, Quesnay, Smith and Bentham. To consider man a "rational being" is like "calculating the velocity of a falling body in vacuum". He is a "compound being" whose "corporal propensities act very powerfully as disturbing forces."[2] Indeed they usually predominate over his reason.

Thus Malthus introduced the passions into economics, whereas, for the philosophers of the 18th century culminating in Bentham and Godwin, what they called "feelings" were only intellectual counters which rational beings used to calculate forces, probabilities, greatest happiness and greatest profits. But, for Malthus, "the question does not merely depend upon whether a man may be made to understand a distinct proposition, or be convinced by an unanswerable argument. A truth may be brought home to his conviction as a rational being, though he may determine to act contrary to it, as a compound being." Hunger, liquor, woman, "will urge men to actions, of the fatal consequences of which, to the general interests of society, they are perfectly well convinced, even at the very time they commit them."[3]

1. Ibid., 366ff
2. Ibid., 252ff
3. Ibid., 254, 255.

If this is true, then not only coercion and punishment by the state are necessary[1] but also the institution of private property. Godwin's error is in attributing vice and misery to human institutions. "Political regulations, and the established administration of property, are with him the fruitful sources of all evil....Yet, in reality, they are light and superficial, they are mere feathers that float on the surface, in comparison with those deeper seated causes of impurity that cerrupt the springs, and render turbid the whole stream of life.... Man cannot live in the midst of plenty. All cannot share alike the bounties of nature."[2]

Suppose all causes of misery and vice removed, all war to cease and universal benevolence take the place of selfishness. If so, then marriages will be contracted without the duty of providing for the children, since, on the principle of equality, the community will provide for them if the parents do not. Population would therefore increase geometrically but subsistence only arithmetically. "What becomes of the picture?.... The hateful passions that had vanished reappear.... In so short a period as fifty years, violence, oppression, falsehood, misery, every hateful vice, and every form of distress, which degrade and sadden the present state of society, seem to have been generated by the most imperious circumstances, by lawslaws inherent in the nature of man, and absolutely independent of all human regulations."[3]

Godwin's community would call a convention. "The question was no longer, whether one man should give to another that which he did not use himself; but whether he should give to his neighbor the food which was absolutely necessary for his own existence... Imperious

1. Ibid., 255.
2. Ibid., 176, 177.
3. Ibid., 179-191.

necessity dictates that a yearly increase of produce should, if possible, be obtained at all events; that in order to effect this first, great and indispensable purpose, it would be advisable to make a more complete division of land, and to secure every man's stock against violation by the most powerful sanctions... It seems highly probable, therefore, that an administration of property, not very different from that which prevails in civilized states at present, would be established, as the best, though inadequate, remedy for the evils which were pressing on the society."[1]

"It is, undoubtedly," concludes Malthus, "a most disheartening reflection, that the great obstacle in the way of any extraordinary improvement in society, is of a nature we can never hope to overcome... Yet... no possible good can arise from any endeavors to slur it over.... Sufficient yet remains to be done for mankind, to animate us to the most unremitted exertion."[2] And his later book, in 1823, on the principles of Political economy, was his puzzled but humanitarian reply to Ricardo's materialism.

Thus Malthus restates in the language of piety, the conclusions of the skeptical Hume, that not only self-interest and private property, but also sympathy and justice, proceed from the principle of scarcity which is none other than his principle of population. Henceforth the passions of man claim a place along with Smith's natural liberty and Bentham's intellectual calculus of pleasure and pain. Darwin and Wallace each takes his cue from Malthus,[3] and the struggle for life, for property, for political domination, takes the place of Smith's divine beneficence; while

1. Ibid., 195ff.
2. Ibid., 346, 347.
3. Darwin, Charles, Origin of Species, chap.... Encyc. Brit., Article on Alfred Russell Wallace.

custom, habit, ignorance, passion, envy, stupidity nullify reason, liberty, equality and fraternity. Smith's optimism ends in what Malthus admits is a "melancholy hue of human life," but which he finds really "in the picture"[1] because he starts with human nature in its hard reality and does not confuse facts with justification, nor what is with what he wished, nor nature with what nature ought to be. His attempt at justification, with which we started this this chapter, was a postscript.

Thus it is that, with Malthus, the science of economics emerges from the Age of Reason that ran from Locke to Smith, Bentham and Godwin, and enters the Age of Passion that stretched from the World War of French Revolution and Anarchism to the World War of German overpopulation and Russian Communism. "Nature" changes from Abundance to Scarcity. Malthus began the disillusionment of a century of business cycles, unemployment, mass migrations, tariffs, monopolies, political and economic struggles of landlords, peasants, capitalists and laborers; a century that split economists into capitalistic, anarchistic and communistic theorists, and terminated in standing armies, revolutions, dictatorships, world capitalism, American efficiency and exclusion of the surplus population of Europe.

1. Ibid., IV.

Chapter VIII

Scarcity and Efficiency

I Use Value, Scarcity Value, and Value

(1) Value and Wealth

With the coming of Malthus and Ricardo economic science began its nineteenth century divisions which terminate in the distinction between scarcity and efficiency. They developed their contrasted theories together in conversation and correspondence, and published them during the period of depression and unemployment that followed the French Revolution. The scarcity theory of Malthus gave way, during the century, to the productivity theory of Ricardo, to be restored at the end of the century by J.B. Clark, while Ricardo's theory passed through the hands of Karl Marx and came out the efficiency theories of scientific management.

Malthus, in 1815, published the application of his principle of population to the origin of rent, [1] and Ricardo published his contrary version in 1817. [2] Adam Smith and the Physiocrats, said Malthus, had given to rent the characteristics of a monopoly; Jean Baptiste Say had based it on private property and external demand; Sismondi had represented it to be "a mere nominal value" resulting from scarcity, and Buchanan "a value unnecessarily and injuriously transferred from one set of people to another." [3]

But Malthus distinguished three kinds of monopoly, an artificial monopoly, like a patent, a natural total monopoly, like certain vineyards of France, and a partial monopoly, "fairly applicable to rent." [4]

1) Malthus, an Inquiry into the Nature and Progress of Rent and the Principles by which it is regulated. (1815)
2) Ricardo, David, Principles of Political Economy and Taxation (1817)
3) Malthus, 3-7, 15, 20. 4) Malthus, ibid., 3.

The scarcity of land, according to Malthus is not enough to account for the high price of raw produce. This high price is to be explained on the principle of population; (1) The fertility of the soil yields more necessaries of life than is required for the maintenance of the persons employed on the land; (2) These necessaries have the peculiar quality of "raising up a number of demanders in proportion to the quantity of necessaries produced."

These qualities of fertility are different from those of all artificial or total natural monopolies, in that the latter do not create their own demand, but fertility does. Therefore the prices received by monopolists diminish with abundance, and increase with scarcity, since "the demand is exterior to, and independent of, the production itself." But, "in the case of strict necessaries, the existence and increase of the demand, or the number of demanders, must depend upon the existence and increase of the necessaries themselves." Thus the cause of high prices of food and other necessaries above cost of production, "is to be found in their abundance, rather than their scarcity," and is therefore" essentially different from the high prices occasioned by artificial...and natural monopolies," which is to be found in their scarcity rather than their abundance.[1]

With this immense distinction, Malthus asks, Is not rent, instead of being a monopoly, or a nominal value, or a mere transfer, "on the contrary a clear indication of a most inestimable quality of the soil, which God has bestowed on man -- the quality of being able to maintain more persons than are necessary to work on it?"[2]

Malthus added a third peculiar quality, the "comparative scarcity" or "partial monopoly" of more fertile land. This arises from

1) Ibid., 13.
2) Ibid., 12-16.

the expansion of population which drives cultivation down to less fertile land. "While fertile land is in abundance" he said, "nobody of course will pay a rent to a landlord..But diversities of soil and situation must necessarily exist in all countries...The accumulation of capital beyond the means of employing it on land of the greatest natural fertility, and the greatest advantage of situation, must necessarily lower profits; while the tendency of population to increase beyond the means of subsistence, must, after a time, lower the wages of labor." Consequently, "the expense of production will be diminished, but the value of the produce, that is the quantity of labor and of the other products of labor besides corn, which it can command, instead of diminishing, will be increased."

No rent would be paid on the last portion of land brought into cultivation, even though profits and wages are low on that land. But since the price of food, in terms of power to purchase labor, has increased, and this price will be received by the cultivators of richer land, the latter would either pay rent to a landlord, or cease to be "mere farmers," and become landlords as well as farmers, "a union by no means uncommon".

Yet even these "partial monopolies" received by landlords under the name of rent "are neither a mere nominal value, nor a value unnecessarily and injuriously transferred from one set of people to another", as is the case with total monopolies. They are "a most real and essential part of the whole value of the national property, and placed by the laws of nature where they are, on the land, by whomsoever possessed, whether the landlord, the crown or the cultivator.1)

1) Ibid., 17-22

Thus Malthus, while he explained artificial monopolies and natural total monopolies on a principle of absolute scarcity, explained the partial monopolies of rent upon a principle of differential scarcity. But differential scarcity was different from total scarcity, since it applied only to fertility. Fertility creates population but monopoly does not. His principle of population comes in to explain the high price of food above cost of maintenance of labor, notwithstanding the beneficence of God in furnishing abundance of fertility.

But his principle of population is none other than the principle of scarcity. So, he discovered the two principles, universal scarcity and differential scarcity -- the principle of population and the principle of rent. But his differential scarcities were not extended to artificial or total monopolies. Differential scarcity pertained to fertility, and it was beneficial to man because it indicated the support of a larger population. But total or absolute scarcity, illustrated by monopolies, was injurious to man because it took something for nothing by raising prices without either an equivalent in exchange or an augmentation of population.

When Ricardo read these conclusions of Malthus, he repeated Buchanan and wrote to Malthus: "I think that rents are in no case a creation of wealth; they are always a part of wealth already created, and are enjoyed necessarily, but not on that account less beneficially to the public interest, at the expense of the profits of stock...The arguments of those who contend for a free trade in corn remain in their original full force, as rents are always

withdrawn from the profits of stock.'[1] "Rent is always a transfer, and never a creation of wealth -- for before it is paid to the landlords as rent it must have constituted the profits of stock, and a portion is made over to the landlord only because lands of a poorer quality are taken into cultivation." [2]

Where Malthus therefore had identified the interest of the landlord with the interest of the public, Ricardo made "the interest of the landlord always opposed to that of the consumer and manufacturer...All classes, except the landlords, will be injured by the increase in the price of corn. The dealings between the landlord and the public are not like dealings in trade, whereby both the seller and the buyer may equally be said to gain, but the loss is wholly on one side, and the gain wholly on the other."[3]

And Ricardo proceeded to construct his theory of value which should fit this difference between himself and Malthus. The prevailing idea of value, accepted by Malthus, placed the origin of value in the wants of consumers. Ricardo placed it in the process of production. Consequently the prevailing idea confounded value with wealth or riches, and "led to the contradiction that by diminishing the quantity of commodities, that is to say, of the necessaries, conveniences and enjoyments of human life, riches may be increased." [4] But if you double the quantity of riches or wealth, Ricardo says, you thereby "double the quantity of utility... which Adam Smith called value in use," but you do "not double the quantity of value" if the quantity of labor required to produce it is no greater.

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1) Letters of Ricardo to Malthus, ed. by Bonar, 69 (Feb. 1815)
See also Ricardo's works, 243
2) Letters, 155, (Aug. 20, 1818)
3) Ricardo, David, Principles, 203 (ed. by McCulloch).
4) Ricardo, ibid. 166, 167

Here the distinction evidently is between use-value and scarcity-value. Use-value is wealth, but scarcity-value is personified as the quantity of labor required to overcome the resistance of nature in the process of production. The greater the resistance of nature the greater is the quantity of labor required to produce a commodity, and consequently the greater is its "value". This greater value is identical with a greater exchange-value and hence both value and exchange-value are distinguished from use-value and wealth. The distinction is none other than that between use-value and scarcity-value.

This was Ricardo's great service to economic science and it was this that called forth the enthusiasm of McCulloch. "Its discovery", he said" has shed a flood of light on what was previously shrouded in all but impenetrable mystery;...What the researches of Locke and Smith did for the production of wealth, those of Ricardo have done for its value and distribution." 1)

The discovery, however, was the distinction between scarcity-value and use-value. Ricardo's "value" was scarcity value, discovered in the sewrcity of nature's resources, where Locke, Smith and Malthus had found value in their abundance. The discovery was the distinction between augmenting the supply of use-values and restricting the supply. Both occur together in the same process of production. The total supply is augmented by increasing the quantity of labor, but each unit of that total supply requires a quantity of labor corresponding to the resistance of nature.

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1) Ricardo's Works, Introduction by McCulloch, XXIV

Thus the quantity of labor consists in two dimensions, the number of laborers and the time at work. It is labor-time. But this quantity varies inversely to its productivity. "The wealth of a country may be increased in two ways:..by employing a greater portion of revenue in the maintenance of productive labor, which will not only add to the quantity but to the value of the mass of commodities; or it may be increased, without employing any additional quantity of labour, by making the same quantity more productive, which will add to the abundance, but not to the value of commodities." 1)

That is to say, in the first case the quantity of use-values (wealth or riches) would be increased, and also the sum of scarcity-values would increase by the same amount because the resistance of nature is constant per unit of labor, but the number of laborers is greater. In the second case "wealth would increase, but not value," which is to say, use-values would increase but not the sum of scarcity-values, because the resistance of nature has diminished per unit of labor.

If we convert Ricardo's statements into time units, then productivity is the rate of output per unit of time. The higher the rate of output the less is the quantity of labor, and the lower the rate of output the greater is the quantity of labor. Hence value, measured in labor time, is exactly opposite to value measured in productivity. The latter measures an increase in quantity of use-value, the former measures resistance to the increase. But the higher resistance means a smaller output of use-value per unit of labor-time; and inversely, it means a larger quantity of labor-time per unit of output. A smaller output means greater scarcity,

1) Ibid., 168

therefore greater scarcity is identical with larger quantity labor. Ricardo short-circuited this logic by personifying scarcity as quantity of labor and giving to it the name value, instead of scarcity-value.

Yet it was a great discovery, in 1817, to change the meaning of value from abundance of use-values to scarcity of use-values. The fact that he stated his discovery in terms of labor instead of terms of scarcity may be explained by the circumstances of the time. The idea of scarcity had been associated with the monopolies of Mercantilism. Lord Lauderdale had said, according to Ricardo, that if water becomes scarce and exclusively possessed by an individual, "you will increase his riches because water will then have value; and if wealth be the aggregate of individual riches, you will by the same means also increase wealth." This was exactly the fallacy of Mercantilism, and Ricardo replied by distinguishing monopoly from scarcity. A monopoly was artificial scarcity, but the scarcity of nature's resources was natural. I the case of monopoly the individual monopolist would charge higher prices for the same supply, and would thereby be richer, but others would be poorer, because "all men must give up a portion of their possessions for the sole purpose of supplying themselves with water, which they before had for nothing." Likewise in the case of a general scarcity of water not monopolized, all individuals would be worse off, but in this case they would have to devote a part of their labor to procuring water and the could therefore produce only less of other commodities. "Not only would there be a different distribution of riches, but an actual loss of wealth." That is to

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1) Ricardo, Works 167

ay, the value of water would be greater in case of general scarcity because labor is required to procure it, but the wealth of the community would be less because a smaller quantity of use-values is produced all around.

Thus it is to be inferred that Ricardo meant by a monopoly a process of marketing, but by scarcity he meant a process of production. Scarcity is a natural condition, monopoly is artificial. Scarcity arises from the limited quantity of labor available and the different degrees of resistance of nature. Value increases as scarcity increases, but, instead of calling it scarcity, he personified it as an increase in the quantity of toil and trouble of the laborers.

Another circumstance of the time was the method, inaugurated by Smith, of controverting mercantilism by setting up labor instead of money as the measure of value. Ricardo changed Smith's method of measuring the scarcity value of wealth by the quantity of labor which it could purchase upon the markets, to the method of measuring it by the quantity of labor required to produce and bring it to the markets -- that is from "commanded labor" to "embodied labor."

Met he was not deceived by the illusion. "We have no knowledge," he said, of a commodity "which at all times requires the same sacrifice of toil and trouble to produce it," but "we may hypothetically argue and speak about it as if we had" and thus "improve our knowledge of the science," by showing, as he did, the difference between wealth and value. In other words, we may use the current personification of value in terms of labor to show the difference between use-value and scarcity-value. McCulloch was disturbed by Ricardo's later weakening on the validity of this personification

and he continued it faithfully until the last edition of his Political Economy in 1864 [1] when it had already been appropriated by Karl Marx.

Malthus had followed Smith in making the measure of value the quantity of labor commanded in exchange, whereas Ricardo made it the quantity of labor embodied in production. While Malthus found his scarcity value in the demand of consumers, and Smith found it in the pain of production, they reached a similar result for an obvious reason. If value means scarcity-value, then it is a ratio between a quantity wanted (demand) and a quantity available (supply) [2] This scarcity-ratio can be changed by changing either the demand side or the supply side. Smith, like Ricardo, assumed demand to be unlimited, and therefore his cause, regulator, and measure of scarcity-value was labor-pain which limited supply. But Malthus asserted that demand was limited by the number of demanders who could be sustained by the existing food supply or by the possession mainly of land or money. Hence he directed his attention to the demand side of scarcity-value and his cause, regulator and measure was the consumer's "will and power" which augmented or reduced the demand. While Smith's regulator of scarcity-value worked by changing the supply side, Malthus' regulator worked by changing the demand side, of the same scarcity ratio of quantity demanded to supply available.

Each paid attention to what, for him, was the limiting factor in the same scarcity ratio. For Malthus the cause of scarcity-value was the demand of consumers for an increase of supply; for Smith it was labor-pain which limited the supply. For Malthus the regulator of value was the proper proportioning of demand for labor among the

1) McCulloch, J.R., The Principles of Political Economy, 1st ed., 1825, 5th ed. 1864; Literature of Political Economy, 4th ed.189

different occupations by the will of man collectively; for Smith it was the automatic proportioning of labor-pain among occupations by individuals separately. For both Malthus and Smith the real measure of scarcity-value was the amount of labor that could be purchased by commodities, wealth, or money. Thus "commanded labor" became, for each, the measure of scarcity value, whether that scarcity was caused by Smith's labor-pain or by Malthus' demand of consumers.

But Ricardo's cause of scarcity value was not the demand of consumers, which, for him, was unlimited,[1] but was the resistance of nature, and this resistance was identical with the quantity of labor required to overcome it. Hence "embodied labor" became his measure of "natural" scarcity-value. But the quantity of embodied labor varies inversely to the productivity of labor. Therefore the quantity of use-value for Ricardo, varies directly with the productivity of labor, but scarcity-value varies inversely to its productivity. Labor produces use-value but the inefficiency of labor "produces scarcity-value.[2]

Another circumstance prevalent at the time of Ricardo was the attempted distinction between real and nominal value, and natural and artificial value. Ricardo converted these terms to fit his own meanings of value. Nominal value with him was any form of scarcity value, measured by purchasing power upon the markets, and not con-

2) page 97. Below Menger ooo
1) Below p.ooo
2) Cp. Hollander, J.H., "The Development of Ricardo's Theory of Value." 18 Quar. Jour. Econ., 455,591 (1909). Hollander seems to hold that Ricardo included "scarcity" in his concept of value-in-use (p458). I believe this reads back into Ricardo later ideas which were not there prior to the Austro-hedonic economists If so then the "commanded labor" of Smith and Malthus was their measure of scarcity-value on the markets, while the "embodied labor" of Ricardo and Marx was their measure, not of use-value, but of scarcity-value in the process of production.

coming to real value in the process of production. Money, monopoly, and even wages were "nominal values". "Wages" he says "are to be estimated by their real value, viz., by the quantity of labor and capital (stored up labor) employed in producing them, and not by their nominal value either in coats, rents, money, or corn." [1]

But his "real value," as we have seen, was also a scarcity-value. Hence, if scarcity-values on the markets conform to scarcity-values in the process of production, then they are real value, the "natural price" paid by man for commodities. But if market prices do not thus conform to natural prices then they are nominal value.

The distinction was controlled by the contrast with use-value. Use-value was wealth and riches, the necessaries and conveniences of life, whose augmentation increased happiness. But both real value and nominal value were exact opposites of use-value -- they placed a limit upon this augmentation. In other words, they caused scarcity-value. The normal or natural regulator of scarcity-value is the quantity of labor under conditions of free competition. Free competition would keep scarcity-value on the markets in conformity with real value, or natural price. The abnormal, unnatural regulator of scarcity-value was any obstacle to free competition, like the collective action of mercantilism. Those kept scarcity-values of some commodities above their real value by keeping other scarcity-values below their real value.

But the dominant idea of the time, which Ricardo controverted, was the idea that value had its origin in the demand of consumers. "I sometimes suspect that we do not attach the same meaning to demand," wrote Ricardo to Malthus in 1814. [2] "If corn

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1. Works, Ibid., 32
2. Letters, 42 (Aug 1814)

ses in price (you) perhaps attribute it to a greater demand." This Malthus did, for he attributed it to an increase of population pressing on the means of subsistence. "I should (attribute) it to a greater competition," said Ricardo, meaning by competition the effective demand of those who produced other things to be offered in exchange for corn. "The demand cannot, I think, be said to increase if the quantity consumed be diminished, although much more money may be required to purchase the smaller than the larger quantity. If it were to be asked what the demand was for port-wine in England in the years 1813 and 1814, and it were to be answered that in the first year she had imported 5000 pipes and in the next 4500, should we not all agree that the demand was greater in 1813. Yet it might be true that double the quantity of money was paid for the 4500 pipes." [1]

This was, indeed the difference between Malthus and Ricardo. Value, for Malthus, was scarcity value on the markets, caused by demand of consumers and measured by money. But scarcity value on the markets, was, for Ricardo, the opposite of use-value. Use value was increased by productivity and measured by gallons and barrels. A higher price for Malthus was an increase in demand; a larger output, for Ricardo must precede an increase of demand. Malthus was interested in prices and believed that quantities would follow prices, but Ricardo was interested in quantities and did not care what became of the prices. For Ricardo an increase from 4500 to 5000 gallons of use-value, wine, was an increase in wealth, although the price might fall from $2.00 to $1.00. But for Malthus a fall in price was a <u>decrease</u> of wealth because the inducement to produce wealth was thereby reduced.

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1) Letters, 42

It resolves itself into the difference between power to use wealth and power to induce production. "We agree" said Ricardo, "that effectual demand consists of two elements, the power and the will to purchase; but I think the will is very seldom wanting where the power exists, for the desire of accumulation will occasion demand just as effectually as a desire to consume; it will only change the objects on which the demand will exercise itself. If you think that with an increase of capital, men will become indifferent both to consumption and accumulation, then you are correct in opposing Mr. Mill's idea, that in reference to a nation supply can never exceed demand." [1] For Mill had developed Smith's idea that it is production, not consumption nor money, that creates effectual demand.[2]

"I go much further than you in ascribing effects to the wants and tastes of mankind; I believe them to be unlimited. Give men but the means of purchasing, and their wants are insatiable. Mr. Mill's theory is built on this assumption." [3]

But, for Malthus, wants were limited. "It is unquestionably true," he said, "that wealth produces wants; but it is a still more important truth that wants produce wealth." [4]

Thus the difference between Malthus and Ricardo was the difference between the increasing wants of an increasing population thereby maintaining scarcity-values, and the increasing productivity of all producers, thereby increasing the quantity of all use-values without changing their scarcity-values in exchange.

The issue between these two concepts of value arose with the widespread depression, unemployment and falling prices that followed

1) Ibid., 43,44, (Sept. 1814)
2) Above, chapter on Smith
3) Ibid., 49. (Oct. 1819)
4) Malthus, Pol. Econ. 363 (1821)

the Napoleonic wars and stimulated this discussion between Malthus & Ricardo. Malthus needed actual demand in order to increase a nation's wealth, whether this demand arose from the possession of money, or the possession of labor power, or the increase of population, or the possession of rents, or even the protective tariffs on grain that increased the purchasing power and therefore the demand of landlords for labor. Without this demand there would be nothing produced, and it was the falling off of demand to which he attributed the existing depression and unemployment.

Hence he was not disturbed by the fall of profits. If profits were too high then too much would be produced relative to existing demand. There must be an increase of consumption that keeps up prices, not an increase of production which reduces prices. Therefore Malthus proposed an increase of consumption as a remedy for unemployment. But Ricardo wrote, "It is against this doctrine that I protest and give my decided opposition." [1]

What Malthus proposed in order to increase consumption, was an increase of taxation, an expansion of public works and an increased expenditure by the wealthy on their estates, all of which was "unproductive consumption" since it did not produce commodities that came upon the markets andreduced prices.

A hundred years later following another world war, this was almost exactly the remedy proposed by a National Unemployment conference called by the President Harding. The conference recommended an increase in public works during periods of unemployment, to take up the slack of private employment. [2] Malthus would have called it

1) Maltthus, Pol. Econ. 595 ff (1821)
2) U.S. Monthly Labor Review, Nov. 1921, p. 129, 132, Report of the President's Conference on Unemployment, 89-106. Supt. of Documents, Government Printing Office (1921).

"unproductive consumption", but he meant the same thing. It would "unproductive" because it would not create a product that comes upon the market and would therefore not add to the existing depression of private employment by further reducing prices.

Ricardo, too, needed actual demand in order to increase a nation's wealth, but his demand must come from an increase in production by capitalists at the lower levels of prices, and this increase was prevented when the capitalists could not make a profit at those lower levels. The reason, therefore, for the then existing unemployment, was not the falling prices caused by a falling demand, it was the high rent, high taxes and high wages, the latter caused by the obstinacy of labor. "The laborers are immoderately paid for their labour, and they necessarily become the unproductive consumers of the country." If wages should be reduced "there would be little diminution in the quantity of commodities produced; the distribution only would be different; more would go to the capitalists and less to the labourers." [1]

Thus, starting with the opposite concepts of scarcity-value and use-value, Malthus and Ricardo were led to two different concepts both of national wealth and the remedy for unemployment and over-production. For Malthus, national wealth would be augmented by increasing the demand of landlords, taxpayers and wage-earners. Demand was his limiting factor. But for Ricardo national wealth is augmented by increasing the output of capitalists by reducing rents, taxes, and wages. Production was his limiting factor. For Malthus, there were general overproduction, low prices and unemployment, because demand was limited, and the remedy was an increase of this limited demand on the part of ultimate consumers, which would thereby increase production without reducing prices and wages.

[1] Letter, 189 (July 1821)

But, for Ricardo, there was only a semblance of overproduction and no real overproduction ingeneral, because wants were unlimited, and the remedy for unemployment was low-wages, low rents and low taxes, so as to afford a profit for capitalists as their inducement to put laborers to work and increase the creation of wealth at the lower level of prices. For Malthus the "unproductive" expenditure of landlords, taxpayers and laborers creates a demand for labor without reducing prices or wages; but for Ricardo this unproductive expenditure was found in high rents, high taxes and high wages, and was a deduction from the profits of capitalists which thereby prevented them from increasing the output of wealth at the lower level of prices.

Thus Malthus had to have a population of consumers increasing faster than the increase of food; Ricardo needed only a population of producers, and considered that consumers could enlarge their effectual demand only by becoming producers. Malthus started with the pressure of population on the means of subsistence, whereby the scarcity of food would not be permanently diminished, no matter how great its abundance. Ricardo started with the resistance of nature to the labor of man whereby the supply of use-values would be limited by the diminishing efficiency of man on lower margins of cultivation. The limiting factor for Malthus was demand that depended primarily on population. Goods would always be produced if they had a scarcity-value. The limiting factor for Ricardo was production. There would always be a demand for all the use-values that labor could produce.

Thus where Malthus, Lauderdale and other found their meaning of wealth and riches in the scarcity-values that depended upon the demand of consumers, Ricardo found his meaning of wealth and riches

the total quantity of use-values supplied by the producers.

"al" scarcity-value was found by Ricardo in the process of production, personified as labor overcoming nature's resistance, and it was this that limited the supply of use-values under natural conditions.

We thus can see the shift in meaning of the word Value from Smith and Malthus to Ricardo. For Smith value meant abundance of use-values, and nature assisted man in producing abundance. Hence his cause of scarcity-value was, not nature, but the pain of labor, which placed a limit on the quantity of use-values produced. But, for Ricardo, value meant scarcity of use-values, and nature resisted man's effort to produce abundance. Hence his cause of scarcity-value was the resistance of nature, or its equivalent, the inefficiency of labor, which placed a limit on the quantity of use-value produced. Smith personified both abundance and scarcity, and found his wealth of nations in abundance of use-values furnished by divine providence cooperating with man, and his scarcity value in pain of labor. Ricardo materialized nature but personified scarcity, and found his wealth of nations also in abundance of use-values, but produced by labor against the resistance of nature, and found his scarcity-value under the guise of real value or natural price, in the quantity of labor required to overcome this resistance.

Malthus was the confused transition from Smith to Ricardo. He found his scarcity-value in the sinfulness of man, and his wealth of nations in the beneficence of God and the labor of man. Hence the cause of his scarcity-value was overpopulation which raised up a demand faster than the combination of divine beneficence and sinful labor could increase the supply.

(II) Value and Price

The further development of the Malthusian version of scarcity-value waited until the rise of the psychological economists, while Ricardo's version waited for Karl Marx. Although Gossen, in 1854, Jevons in 1862, Menger in 1871 and Walras in 1874 originated independently the so-called psychological theories of value, we select Menger's exposition, because his psychological analysis furnishes the foundation for the transition from hedonistic to volitional psychology and from psychological to quantitative economics.[1]

Menger, distinguished four prerequisites in order that a material thing may be an economic good in the sense that it has utility (nützlichkeit), namely,

(1) The knowledge or expectation of a human want (Bedürfniss);

(2) Such physical qualities of the object (güterqualitäten) as make it fit to satisfy the want;

(3) knowledge, correct or erroneous, of this fitness;

(4) such control over the thing, or of other things as instruments, that it can be obtained and used to satisfy the want (die Verfügung über dieses Ding).

The first and third of these prerequisites, we designate by the word, Meaning, since they indicate, not exact knowledge, but the intellectual process of attaching importance to the object for human purposes. The second we designate Use-value, since it is a physical quality that does not diminish with abundance nor increase with scarcity and is equivalent to Ricardo's meaning of riches or wealth. The fourth we distinguish as either Physical Control which Menger identifies with Technology, or Property Rights which he identifies with economy.[2]

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1. Menger, Carl, Grundsätze der Volkswirtschaftslehre, (1871), Second edition (1923)
2. Ibid., 1st ed., 3; 2d ed., 11. Below p 000

Up to this point the concept of scarcity does not appear in Menger's prerequisites. He introduces this concept by his distinction between wants (Bedürfnisse) and quantity wanted (Bedarf).[1] Wants are strictly psychological and subjective, but quantity wanted is both subjective and quantitative. Wants are mere feelings which differ in intensity. Quantity wanted is adaptation to circumstances. Quantity wanted is the quantity of a particular use-value (Güterqualitäten) wanted at a time and place. Hence it is always a limited quantity wanted at a particular time and place by a particular person. The error of preceding economists in holding that wants were unlimited, said Menger, was their failure to distinguish quantity, time and place. Wants may be unlimited in point of indefinite time, but the quantity wanted here and now is a limited quantity.[2]

Menger devotes considerable space to showing that his newly formulated concept of "quantity wanted" is both a familiar concept and has an objective quantitative meaning. Wants in themselves (Bedürfnisse) are purely feelings of different degrees of intensity, and have no intellectual reference to the objective quantity wanted which is always a limited quantity at the time and place, for a particular purpose then and there intended. The quantity wanted has reference to actually recognized needs, which are not needs for an indefinite quantity, but for a limited quantity at the moment when greater or less quantities are being weighed in the balance relative to the greater or less quantity of other things wanted also, and in view of our limited total control over quantities of all things wanted, at the time and place. We do not want an unlimited quantity of beefsteak at a particular dinner -- we want only just enough of

1) Ibid., 1st ed. 32; 2d ed. 32 n.
2) Ibid., 1st ed 35 ff; 2d ed. 32 ff; especially 32 n.

e right kind and we want several other things with it. The manufacturer does not want an unlimited quantity of pig iron here and now -- he wants only just the right amount to fit into the quantities of rolled steel products which customers will take off at profitable prices. These facts are so common-place and familiar that they are accepted by all, and the only question is, how shall they be incorporated into economic theory.

This incorporation turns ultimately on the problem which John Locke raised. All that we really know is the feelings that go on in our own mind. These feelings, from the time of Bentham, if they had the character of desire, happiness, or avoidance of pain, were given the name "utility", equivalent to the subjective meaning of use-value. Bentham attempted to measure them as a "lot" of units of pain or pleasure. Then later economists, especially Gossen and Jevons, discovered that there was a certain law of diminishing intensity of feeling along with an increasing quantity available, and inversely an increasing intensity of feeling of want along with a diminishing quantity available. Hence they devised a formula of "diminishing utility", which was diminishing intensity of successive units of pleasure accompanying additional units of the commodity available.

The objection of this formulation is that it is subjective and non-quantitative, in that it splits up the feelings that imaginary units of sensation, like dollars and cents,[1] and that it attaches all importance to the last single unit of feeling which is named marginal or final utility. This unit is the cause or regulator of value attached to all the other units of feeling.

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1) See Mitchell on Bentham, above ooo

But Menger, by his distinction between feelings of want (Bedürfnisse) and feelings of quantity wanted (Bedarf) brought the intellect, and the will into play and projected these feelings into knowledge, correct or erroneous, not of particular internal sensations treated as separate units arising from separate units of external objects, but of a total limited external quantity wanted relative to a total limited quantity available, at the time and place. It now becomes, not a marginal increase of commodity nor a marginal intensity of feeling, that is to be considered all-important, but it becomes the whole quantity wanted in relation to the whole quantity available, under all the circumstances of time andplace. This whole quantity can afterwards be split up into the customary units of ounces, tons, dollars and cents, or even into imaginary units of sensations, if one is so inclined. But these objective units of quantity are the conventional units of measurement and they, of course, do not determine value, -- Value is the value of the limited total quantity wanted here and now, and the increments or units are conventional fixed dimensions devised for measuring it. This marginal utility confuses measurement with valuation. The alleged units of feeling and corresponding increments of commodity belong to a theory of measurement and have no effect whatever on the values which can be measured.

It is to be noted in Menger's analysis that this total limited quantity wanted for certain limited objective purposes is always again limited by another limitation, the total quantity available, controllable, disposable, or purchasable, here andnow. The quantity wanted is thus inseparable from the quantity available, increasing if the latter increases but decreasing if the latter decreases.

This is evidently none other than the universal phenomenon scarcity, applicable to all living creatures whether acting instinctively or intelligently. It is the relation between a variable but limited quantity wanted and a variable but limited quantity available, at the time and place. The fact that Menger unfortunately used the hedonistic term, utility (Nützlichkeit), in conformity with the tradition of Bentham, has concealed the real contribution of Menger and directed attention to the subjective intensity of wants, whereas, instead of diminishing utility in the hedonistic Benthamite sense of degrees of intensity of feeling, he was really developing the idea of diminishing scarcity in the quantitative sense of total quantity wanted relative to total quantity available.

This relation we name the Degree of Scarcity, instead of the Degree of Intensity of Feeling. His diminishing utility is diminishing scarcity. Diminishing utility is the Benthamistic calculus of sensational units of pain and pleasure. But diminishing scarcity is the Mengerite quantitative relation between total quantity wanted and total quantity available. Menger merely reduced the old formula of supply, demand and price, which had been applied to a world of buyers and sellers, to a personal formula applying to each individual. His quantity wanted is the individual's demand, his quantity available is the share of the total supply available to the individual at current prices. The repetition and duplication of Menger's individual is the world demand, supply and price.

This fact is of universal and commonplace knowledge, and the main question for economic theory is, How shall it be interpreted and grounded upon universal known facts of human psychology. It may be interpreted by Bentham's sensational psychology of successive units

feelingly as was done by Jevons, or by what may be named a volitional psychology of Menger. The latter was worked out by Wieser.[1]

Wieser, howeve, like Menger, misled his followers by using the Benthamite term "utility", and thus failed to impress the economic world with his great elucidation of what he acknowledged was the contribution of Menger. Had he used the term diminishing scarcity instead of diminishing utility, and the term marginal scarcity instead of marginal utility (Gruoznutzen) then it would have been plain that what he was doing was the explication of a strictly objective and quantitative theory of value in the only sense that anything is objective and quantitative, namely, the felt probability that something external exists in limited quantities which, therefore, has meaning and value at the time and place for outselves or others.

Since the consideration of this problem is, in fact, a consideration of the transition of economic science from psychological economics to volitional and quantitative economics, we shall go through it with painful detail.

Wieser's extension of Menger's analysis turned on the distinction between Value and Price, which he clarified under the name, Paradox of Value. The same distinction was afterwards made by Fisher and it is evidently the distinction customary in all popular discussions and all quantitative economics and statistical computation. "Value" is the value of a quantity, but price is the value of a unit of the quantity. The distinction is simple enough and quite common-place -- in fact so simple that economists have avoided it because it did not furnish them with a basis for getting at the fundamental psychology which they thought must be used in explaining value. Thus Fetter, in criticising Fisher's distinction between Value

1) Wieser, Friederich, von Natural Value.

M. Price, which is Wieser's distinction, quotes Fisher as saying, "Value, as here explained, is not a subjective magnitude in the mind of man, but purely objective, as money-value wheat-value. It has, of course, subjective causes, but these do not concern us yet." [1]

Fetter then criticises: - "Value is here turned to a use already filled. Any unit, either of price or of quantity of goods, is arbitrary, and must be always indicated either expressly or by implication, whenever a price is stated; as price in cents, ounces of bullion, per bushel, wagon-load, ton of grain, cotton, iron, etc. Conversely the term aggregate is an arbitrary one, and may be deemed a unit, if one please. Thus a bushel of wheat is but an aggregate of grains of wheat. Consequently the word price can be used without confusion either for the conventional unit or the aggregate of the units, and nothing is gained by the innovation. On the other hand, the loss of terminology is great when the term value is taken from its subjective use in which it is indispensable, for thereby an understanding of recent value-discussion is made hopeless." And he cites Young, who, he said, had used the term with the Wieser-Fisher meaning, under the apprehension that he was using it with the psychological meaning.

Fetter's criticism turns on the validity of the popular distinction between a quantity and the customary fixed unit by which that quantity is measured. Wieser's paradox of value will enable us to see that it is this very distinction of fixed units, as against Fetter's variable units, that furnishes the customary means employed in all sciences of isolating a variable factor by making all other factors constant. In this case it is the method of isolating

1. Fisher, Irving. Nature of Capital and Income 45, 15 (1906)

productivity from scarcity, and use-value from scarcity value, by assuming that one factor is constant, in order that we may measure the variability of the other factor.

Wieser's formulation of the paradox is merely an adaptation of this usual scientific method of measuring separately two variable quantities that go to make up a variable resultant, by assuming first that one is constant in order to measure the variability of the other, and then assuming that the other is constant in order to measure the variability of the first.[1] The following illustration will suffice, using however, for reasons given, the term scarcity where Wieser employs "utility", and using definitely the meaning of physical use-value, where Menger and Wieser had converted it into the Benthamite meaning, "utility".

If "price" is the quantity of money which a fixed physical unit, say one bushel of wheat, will command in exchange, then price, or the ratio of exchange between a bushel of wheat and a variable number of dollars or cents, is the variable scarcity-ratio of wheat relative to money. This is the scarcity-value of wheat measured by the variable number of standard units of money. The physical unit wheat is here made constant by supposition, and we then measure the changes in the scarcity, or so-called power in exchange, or purchasing power, to which is given the name, price of wheat, but which is, in terms of value, the scarcity-value of wheat.

If, on the other hand, the scarcity ratio is assumed to be constant, or is corrected by mathematical computation of index numbers, so as to be made into an unchanging price, that is, a

1) By the term constant, we do not mean a total fixed quantity, we mean the same quantity for each unit. It is a constant unit, not a constant quantity.

constant ratio of scarcity relative to money, then, with the scarcity value (prices) thus made constant, we separate out and measure by bushels the variable quantities of use-value produced, in the form and quality known as wheat, say, a billion bushels, two billion bushels, and so on. This is the familiar process of statisticians when they wish to measure changes in the real wealth or annual production of a country having at hand only the money-values from which to calculate. They eli inate what they call "nominal changes due to variations in the purchasing power of the dollar", which is to say, they eliminate the scarcity-value of commodities by making prices constant, in order to measure the variability in number of bushels, tons etc. of use-value.

If, lastly, we combine the two variable dimensions, a variable number of bushels of use-value and a variable price or ratio of scarcity-value, we arrive at the meaning of "value" as propounded by Menger, Wieser and Fisher, and understood by everybody in business, agriculture, and statistics. Stating it in customary terms, if the physical quantity is doubled, from one billion to two billion bushels, but the price remains constant at $1.00, then the "value" has doubled from one billion dollars to two billion dollars of value. Likewise, if the price is doubled but the quantity remains the same, then the value has also doubled from one billion dollars to two billion dollars of value.

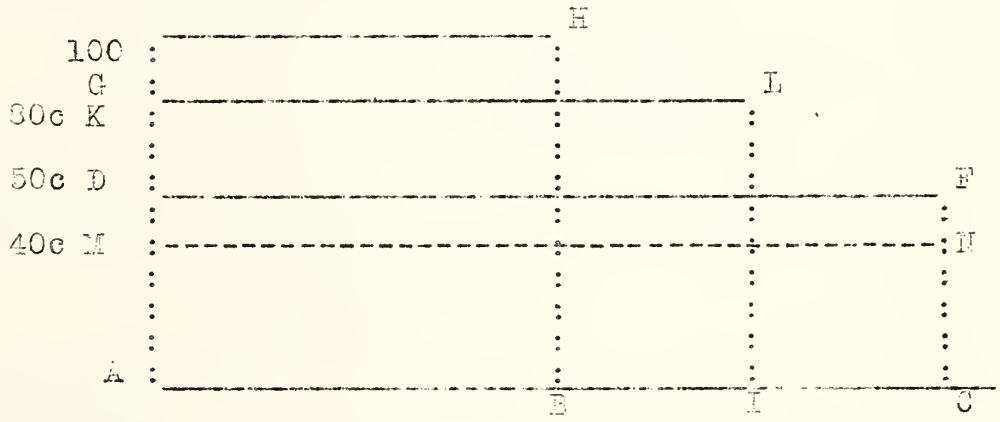
The paradox arises from the functional relation between demand, supply and price, such that the price, or scarcity value, tends to fall with a decrease of the quantity wanted, or to rise with an increase of the quantity wanted, or, on the other hand,

to fall with an increase of the quantity supplied or rise with a decrease in the quantity supplied -- a patent fact of experience. Its significance, however, for economic theory is, as Wieser shows, that the point of highest value is not the point of highest price. There is an increasing and diminishing value, depending upon the two variables, the physical quantity and the degree of scarcity. The change in scarcity is its change in scarcity-value or price, the change in quantity is its change in quantity of use-value. And the combination of the two variables is this paradox of value.

This may be pictured by the following diagram.

Figure VI

Paradox of Value



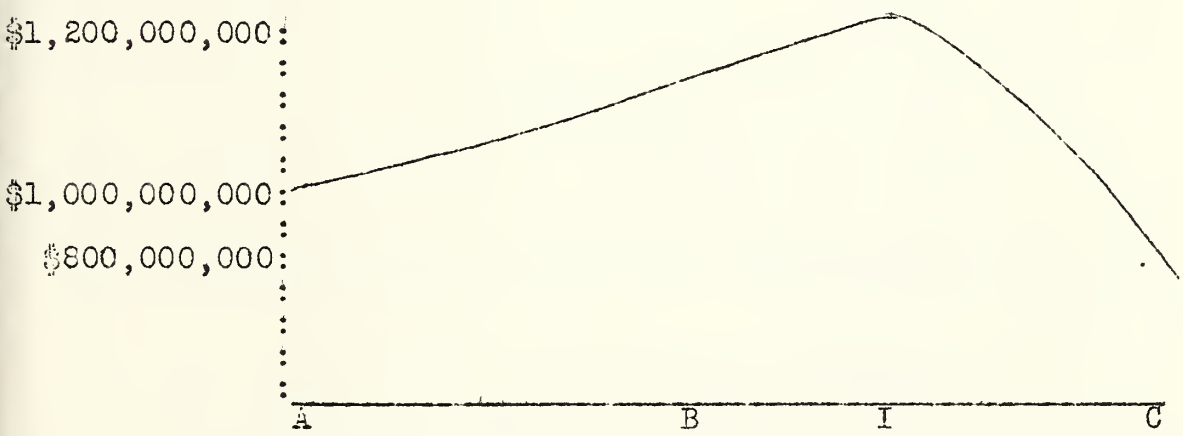
Use Value
AB = one billion bushels
AC = two billion bushels
AI = 1,500,000,000 bushels

If an increase in physical quantity of use-value, from one billion bushels of wheat to two billion bushels, (AB, AC) is accompanied by a fall in scarcity value, from $1.00 to 50 cents per bushel (AG, AD), then the "Value" remains at one billion dollars (ABHG, or ACFD). But if the scarcity value falls to 40 cents, owing to the increase of abundance faster than the increase

of quantity wanted, then the larger physical quantity, 2 billions bushels, has a lower value, $800,000,000 (ACNM), than did the preceding billion bushels at a scarcity-value, $1.00. The largest "Value" is at the point where the declining price, caused by increasing abundance, is not heavily counterweighted by the increasing physical quantity, say, for example, 1,500,000,000 bushels at 80 cents where the resulting highest value is $1,200,000,000 (AILM). Less than this amount of "Value" is both the smaller quantity at the higher price -- 1,000,000,000 bushels at $1.00 per bushel -- and the larger quantity at the lower price -- 2,000,000,000 bushels at 50 cents per bushel. If now, we draw another diagram showing the change in value we shall have the following:

Figure VII

Value Curve



Use Value

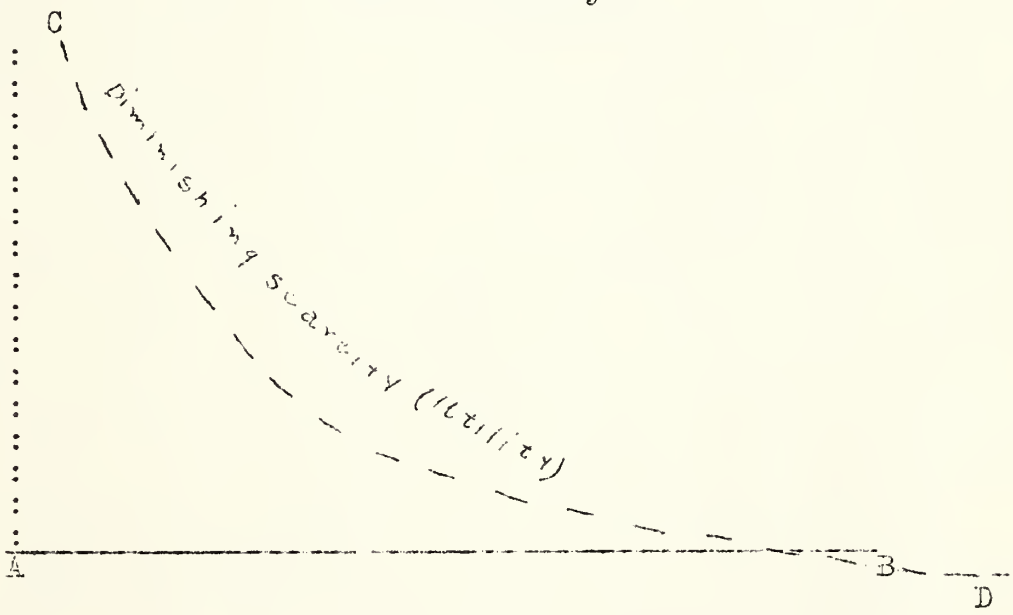
Here the value, composed of two dimensions, enlarging quantity of use-value and diminishing scarcity-value, rises from one billion dollars when the quantity is a billion bushels and the price $1.00, to its maximum $1,200,000,000, when the quantity is 1,500,000,000

the price is 80 cents, then declines to $800,000,000 when the quantity is 2,000,000,000 and the price 40 cents.

This Value Curve should be compared with the Scarcity Curve, which is the usual formulation of the curve of diminishing utility. This curve usually starts with an imaginary absence of any supply whatever, in a desert -- and then progresses with an imaginary succession of increments of commodity and corresponding diminishing utility. This we may distinguish as the mental formula of pure scarcity, irrespective of time, place, circumstance, quantity wanted and quantity available, as follows:

Figure VIII

Pure Scarcity



Increasing Abundance

An increasing physical quantity of use-value (AB) is merely the correlative of diminishing scarcity (CD), and the hedonistic form of statement as diminishing utility, i.e., diminishing intensity of successive units of pleasurable feelings, is merely a dramatic personification of diminishing scarcity. Increasing abundance is diminishing scarcity.

It will be seen that what has happened in Wieser's computations of Value and Price has been the use of the well known experimental device of science in controlling all the complex variable factors except the one whose variability is to be measured, and then using customary units of measurement to measure the variability of the variable factor under different circumstances. It happens that, in economics, there are these two variables, use-value and scarcity-value,/-- and hence two systems of measurement are required for measuring value, physical units of quantity of use-value and scarcity units of general purchasing power, known as money. The one measures use-value, the other scarcity value, and both are required in every economic transaction. The price of wheat is the number of units of money which the demand for wheat will enable the seller to command in exchange, reduced to the two standard units, one of which, the bushel, is kept constant in order to isolate and measure the other in terms of dollars and cents, and then the other, the dollar, is kept constant in purchasing power in order to measure the variable quantity of bushels. And the value of the total crop of wheat is the product of the total number of physical units of use-value, the standard bushel, and the total number of the scarcity units, the standard dollar, as it happens to be at the time and place.

Thus the bushel and the dollar are mere artificial units arising out of custom and law, for the purpose ofmeasurement, and the term "price" is merely these two artificial units isolated from their total volumes in order to standardize the single dimension, relative scarcity, at the time and place, apart from the otherwise immeasurable relative scarcity existing between the total quantity of wheat wanted and available and the total quantity of money wanted and available, on the world markets for wheat and money.

And the paradox of value is discoverable from the device of measurement, since it arises from the circumstance that, (supposing the scarcity of money relative to all other commodities is assumed to be constant), then an increase in the physical quantity of wheat is accompanied by a fall in price, and this fall in price is also a fall in its exchange value relative to other commodities in general, the latter epitomised as a stable general purchasing power of money. The rate, or elasticity, at which this fall occurs, depends on its own factors of demand and supply which work in part independently of the rate at which its own physical productivity augments the quantity available. This rather belabored statement is condensed by clearly distinguishing the two meanings of value, use-value and scarcity-value, which, thus distinguished are the ultimate description of the paradox of value. Use-value refers solely to the useful physical qualities of things -- scarcity value refers to the quantity of use values wanted, relative to the quantity available.

Hence both the terms value and price indicate scarcity value, and the paradox arises from the opposite directions in which use-value and scarcity value are augmented. Use-value is increased by increasing the number of physical units of good things regardless of how intensely they are wanted. Scarcity value is increased by the opposite process of reducing relative to demand, the quantity of good things so that they are wanted more intensely.

The resultant is a three-fold meaning of value -- use-value, scarcity-value and value: - use value, the sum of physical units, bushels, tons, or even man-hours devoted to production and stored up in the accumulated use-values; scarcity value, the supply and

mand dimensions, measured by multiples or fractions of dollars per unit of the physical dimension; and Value, the sum of the then scarcity-values of each physical unit accumulated or stored up, each having the same scarcity value at the same time and place, although all of them may vary equally with changes in demand or supply.

From these three-fold meanings it appears that Value may be increased in two ways: - increasing the quantity of use-values measured in physical units, Wieser's "up-grade", (Figure VII), without corresponding reduction of their scarcity-value, measured in reduced prices: or by an increase in their scarcity value, measured by an increase in price, but without increasing and even by reducing, relative to demand, the quantity of use-values. Since the bulk of producers have an eye on demand, it is the first method that they instinctively imply, and consequently they merge the meanings of use value and scarcity value in the ambiguous meaning of value. They produce, of course, what the public wants, taking for granted, of course, that in order to produce value, they must produce in limited quantities because the public wants only limited quantities.

This ambiguity of the word value has extended in economic writing from the physical economists down to the psychological economists. The term production, for example, always means the production of something valuable. But what is the kind of value? Is it the mere physical meaning of augmenting the output of use-values, or the scarcity meaning of augmenting the intensity of desire by limiting supply, or the value meaning of augmenting the quantity of scarcity-values without reducing their scarcity-value? The first, we have seen, was the meaning of production at the hands of Ricardo, the second and third were his meanings of value and distribution.

The different meanings of Wealth and Riches were thus confused by the three-fold meaning of value, and we can see, by the help of Wieser, how it was that Malthus and Ricardo disagreed in their meanings of wealth. Ricardo meant by wealth an increase of the quantity of use-values, but Malthus meant an increase in both scarcity value by increase of population, and an increase in the quantity of scarcity-values by production without reducing the scarcity value. This is the Menger-Wieser-Fisher meaning of value.

So it is with the modern meanings ofpsychological value. All value is psychological, no more so today than with Adam Smith. But the question is, what kind of psychological value? Is it use-value, where the psychological factor is an intellectual appreciation of the expected happiness of man by an increase in the quantity of physical use values whose scarcity value, it is assumed, would not diminish because wants were unlimited? This was the meaning of use value for Smith and Ricardo and the meaning of utility for Bentham. Or is the kind of psychological value the diminishing feeling of intensity of desire, with each successive feeling, measured by an imaginary unit of intensity until the final intensity is reached? This is the pure scarcity value, according to the psychology of Jevons remodeled from Bentham. Or is psychological value the kind of value intended by Menger and Wieser where the individual, in view of all the present and expected circumstances of demand, supply and price, of all commodities wanted, determines the total limited quantity wanted at the place and time relative to the total limited quantity available at the same place and time?

Each of these types of value is psychological, but in order to distinguish them we may name the first psychological Parallelism, since the intellectual element predominates and an increase in the

quantity of physical use value was assumed to be accompanied by a parallel happiness or welfare of mankind. This, we take it, was the meaning of Adam Smith under the name use-value and of Bentham under the name utility, as adopted by Ricardo. The second we may name psychological Functionalism, since the diminishing intensity of successive units of pleasure is correlated with additional units of commodity. The third we may name Volitionism, since the valuation is made with reference to proposed action, and is a valuation of the total quantity wanted relative to the total quantity available with reference to all the circumstances of demand, supply and price at theplace and time and in view of the expected consequences of the action about to be taken.

It is this volitional meaning that Wieser intends, since he makes plain that by his term "subjective value" he means the personal attitude taken by the individual towards the external conditions of supply, demand and price to which one must adjust himself. It is not subjective in the functional sense of units of feeling relative to units of commodity, but in the volitional sense of "economizing his own resources, in order to decide for himself what attitude he may take up with regard to things outside of him". Thus the contrast between "subjective" and "objective" turns out to be the contrast between the individual and society. Objective value is price, and this is "a social fact", but "internal valuations of personal interest do, always and without exception, attach to objective value also, but these valuations are only subjective, being greater for one and smaller for another." [1] What is significant

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1) Wieser, ibid., 52

therefore, about Wieser's subjective value is the difference between persons, especially the rich and the poor, in their influence on objective value, the prices. "This personal attitude can have no effect on the movement of goods in the great economic exchange between one economy and another, or in the end between any economy and his own, except in so far as he may succeed in influencing the prices of goods. It is the prices that absolutely decide in exchange. Goods fall to those who pay the highest prices, and -- what is most important -- the amount expended upon production is regulated by the prices expected from the sale of the goods." [1]

In other words, the individual comes upon the market with the three concepts of value in his mind, the use-value, the scarcity value and the quantity which is the value of what he purchases. The three are inseparable and his choice takes the three into account, and it cannot be oversimplified by a psychology that takes only one into account. He finds "a going price" to which he must adjust himself. He finds different qualities of the same kind of goods, and different kinds of goods, and he finds variable quantities available at the going prices. He must choose upon the basis of kind, quality, price, and quantity available relative to quantity wanted. The process is not simple and its psychological quality cannot be shortened to anything less than that volitional psychology which hesitates and weighs in the balance all the factors and then acts for better or worse.

Wieser worked out his theory of "natural value" on the hypothesis of a communist state which, however, was a state without collective action restraining or coercing individuals.[2] It was,

1) Ibid., 50,51.
2) Ibid., 60 ff.

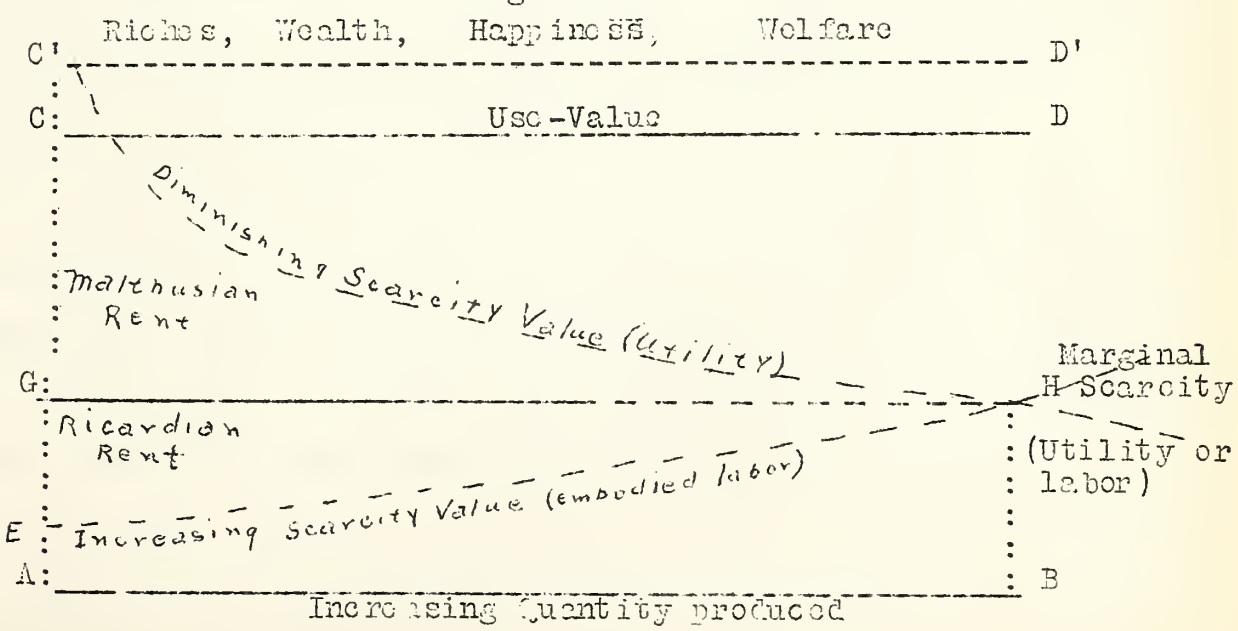
in fact, an anarchistic state such as Proudhon pictured, the essential nature being individual action without the intervention of money. In this state, "utility" carried the meaning of pure scarcity, marginal utility the meaning of price, and value the combined meaning of use-value, scarcity value and quantity of commodity. This hypothesis was made in order to eliminate the confusion caused by the institution of money and the conclusion is that the same laws of value and price hold in a moneyless economy as those that hold in a capitalistic economy.

This method of approaching the problem is indeed scientific in that it assumes certain factors constant, such as a stable purchasing power of money, or eliminates certain factors, such as collective action or money, which afterwards can be introduced. Our method, however, starts with collective action first and then resolves the individual into the position, job or membership which he holds within the varieties of collective action to which he must adjust himself. Yet without Menger's and Wieser's analysis developed by their method it would be impossible to portray collective action. The going price, to which the individual must adjust himself, results from many forms of collective action which determine his rights, duties, liberties and exposures with regard to that price. And modern economic conditions have produced such dominating varieties of collective action, that a better interpretation is made by beginning therewith. The simplest form into which collective action can be reduced is that of a transaction as we have explained it, and this transaction involved in itself the very contrast which Wieser made between subjective and objective value. It is at least four individuals adjusting their personal attitudes to the collective, customary, legal or concerted restraints and immunities that surround

...m. From this transaction we go in one direction to the individual and in the other direction to the collectivity.

With Menger's analysis and Wieser's distinction between value and price we are now in position to notice the way in which it furnishes the groundwork for interpreting the divergent views of Malthus and Ricardo respecting wealth and value. They were dealing with the opposite terms of the same scarcity ratio of total quantity wanted to total quantity available. But Malthus took one side of the ratio, the total limited quantity wanted by the total increasing population, while Ricardo took the other side of the ratio, the total limited quantity available owing to the increasing scarcity of nature's resources. The shortest way of explaining this divergent method of handling the same fact is by means of a diagram as follows. The diagram represents Ricardo's analysis of agriculture, but not manufactures, since in the latter case he assumed an average amount of embodied labor per unit, whereas in agriculture he built on the differential in amount of embodied labor on better soil up to marginal cultivation.

Figure IX



If the total quantity of wheat produced for a total population i augmented successively by added increments, starting at A and limited at B, then the physical use value, CD, is augmented to the same extent, the unit of measurement of this kind of use-value being the bushel. This physical use-value was Ricardo's meaning of Riches or Wealth, and Smith's and Bentham's parallel meaning of happiness or welfare C'D'. Use-value, whether physical or psychological, increases with abundance.

But Ricardo's diminishing productivity on lower margins of cultivation is an increase in the quantity of embodied labor per bushel, and this is equivalent to an increasing scarcity-value per unit (EH), since his embodied labor is a personification of scarcity. If, finally, there is perfectly free competition, then the exchange-value, or price, will be one price at the same time for all bushels, measured vertically from AB to GH. This uniform exchange-value will be determined by Ricardo's marginal "Value" BH, which is the largest quantity of embodied labor since it is the quantity contained in the wheat produced on the then margin of cultivation. In short, this marginal quantity of labor per bushel is his personification of marginal scarcity. Finally, Ricardo's "Value" of the total product is the parallelogram, ABHG.

Converting this into the version of Menger and Wieser, which is the Malthusian version, this quantity of wheat, AB, is the quantity available, controllable, or purchasable, for the population as a whole at that time and place. Had there been a smaller quantity available, then the utility-now to be defined as scarcity-value instead of either utility or use-value -- would have been a higher value -- the assumed diminishing scarcity value shown by the curve C'H. But with the quantity available as it is, at AB, and with the

ntity wanted by the society also what it happens to be, (and again with perfect competition assumed), then the exchange-value, or price of each bushel, will be the one price for all bushels, AG or BH. This is not causaly determined by a single unit, the marginal utility, but is an equal scarcity value for all equal physical units of the total quantity. And again the term value indicates what is measured by the parallelogram ABHG.

Now this uniform exchange value, CH, for each unit of product was what Ricardo meant by Value, but for him, it was a uniform scarcity-value regulated by the marginal scarcity, personified as embodied labor, and when accumulated for each unit of the physical quantity became the total market value of the total quantity produced. And this uniform exchange value is also Wieser's meaning of Value, but, instead of attributing the causal influence to the marginal unit, as did Jevons or Ricardo, he and Menger attributed it to the total quantity wanted relative to the total quantity available.

On the other hand, the curve C'H, is the revised Benthamistic formula, given by Gossen and Jevons, for diminishing utility with each additional increment of quantity available, and to this we have given the name, diminishing scarcity, instead of the hedonistic sensational term, diminishing utility. The subjective term is a concept of pure scarcity-value personified and subjectified, and separated from all circumstances of time, place, demand, supply or price. But the term diminishing scarcity indicates what is meant objectively and quantitatively, for diminishing scarcity is none other than increasing abundance.

Thus the term "Value" has the same meaning for Menger and Wieser as it had for Ricardo and later Karl Marx, but from the standpoint of opposite terms of the same ratio of quantity wanted to quantity available. Ricardo had clearly made the distinction between productivity and scarcity, between technology and economy, between wealth and value, but by personifying scarcity as embodied labor and giving it the name Value, he had read into the process of production a double meaning of production, involved, as we can see, in the two dimensions of value, the physical dimension and the scarcity dimension. Technologically, labor produces use-values. This he made clear. Economically, it produces use values in limited quantities. This he also made clear. But his terms labor and value had this double meaning. Labor means exertion to produce something, and of course, no sensible laborer would exert himself to produce something that had no scarcity. The personification concealed the contradiction of use-value and scarcity value, and Karl Marx walked into it.

Ricardo could not have made this personification exeppt that he took it for granted that wants were unlimited. But this did not mean that wants were eliminated. Indeed he replied to Malthus that he laid more weight on wants than did Malthus because he considered them unlimited whereas Malthus considered them limited. We now see that, by unlimited wants, he meant the psychological parallelism of Smith and Bentham. Hence he did not eliminate wants. What he actually did was to make them constant per unit of commodity, no matter how great the increase of quantity available. If wants are unlimited it is the same as saying that the intensity of the want is constant for each added increment of supply. This means a con-

stant price, so far as demand is concerned, and this is identical with a meaning of absolutely inelastic demand. Ricardo, by assuming wants unlimited, started his theory with the assumption of inelastic demand.

This is proper enough if you wish to measure the changes in some other factor. What he was measuring was changes in productivity, and so he assumed demand to be constant per unit of product. You assume the scarcity dimension is constant by assuming demand and price are constant per unit, and then you attempt to measure the effect of the technological factor upon prices. This was Ricardo's device. But by personifying it as embodied labor he injected into it the double meaning of productivity and scarcity, use-value and scarcity value. Productivity of labor was the physical dimension which increased the quantity of use-value, but resistance to labor was the scarcity dimension which limited the quantity available. Hence his laborer is both producing use value by increasing the quantity and producing scarcity value by uniformly limiting the quantity.

Thus he reached the same result as Menger and Wieser, but fromthe opposite term of the same scarcity-ratio between quantity wanted and quantity produced. His "embodied labor" meant a limitation of quantity available as supply, but Menger's diminishing scarcity (utility) meant a limitation of quantity wanted as demand. With each of them the term value had the same meaning of a quantity with two dimensions, a physical quantity of use value and a scarcity value relative to other commodities. Ricardo's capitalist would not increase the supply of embodied labor in the form of capital if there were no profit in it, and Menger's quantity

available would not be produced if expected consumers would not pay the price plus profit. Always Ricardo's capitalist produces in limited quantities, in order that his embodied labor may have an equivalent scarcity-value including profit on the markets; and always Menger's diminishing scarcity places a limit on this scarcity-value. It is the same scarcity ratio of quantity wanted to quantity available, but for Ricardo the variable quantity is the limited quantity available in the technological process of production, while the constant quantity per unit is demand, and for Menger and Wieser the variable quantity is the limited quantity wanted while the constant quantity per unit of product was technologically the process that determines the quantity available.

We have given the name Variable Degrees of Scarcity to Menger's variable ratios of the quantity wanted to the quantity available, which, when measured off into fixed units, become a physical unit, the bushel, etc. and a variable number of other physical units of another commodity, thus separating out the ratio of scarcity from the physical dimensions. But this variable unit of another commodity has also its variable degrees of scarcity according to the variations in its quantity wanted and quantity available. Menger and Wieser gave to this variability of the ratio of two commodities in exchange in this moneyless economy, the names utility and marginal utility, but since the meaning of scarcity had already been injected into the meaning of utility, evidently, the terms scarcity and marginal scarcity are equivalent to utility and marginal utility.

one of these commodities, physical money, is selected as the standard unit of exchange, to which all other degrees of scarcity of all other commodities is to be referred, it also has its own degree of scarcity, variable according to the total quantity wanted relative to the total quantity available. When it now comes to measurement by selecting fixed physical units, the bushel, ton, etc. on the one hand, and 23.8 grains pure gold on the other hand, then the term marginal utility becomes the degrees of scarcity of all commodities relative to the degree of scarcity of money, and the term "price" becomes the equivalent of marginal utility in the sense of the measurement of relative scarcities. Thus the term marginal utility is merely a personification of the uniform scarcity of each equal physical unit of the total quantity. And since value is the total scarcity-value of the total number of these equal physical units having the equal degree of scarcity, so in the money economy, where the degree of scarcity of money is substituted as a standard unit in place of the many degrees of scarcity of other commodities, the term price becomes the equivalent of marginal utility, and the term value becomes the scarcity value in terms of money of the total physical quantity of the commodity under consideration.

Thus we have two meanings of the relative scarcity existing between different degrees of scarcity: - the relative scarcities of all commodities to each other without regard to money, determining the ratios at which their units shall exchange, and the many degrees of scarcity of all commodities relative to the degree of scarcity of money, determining the ratios at which the money-unit shall exchange with units of the others. The causes of these varying degrees of scarcity are matters of investigation, and no single

cause, such as a "quantity theory" or a "commodity theory" can be used as explanation, what we start with is the scarcity relations between total quantities wanted and total quantities available, which are different for every commodity at different times, and then, by investigation, ascertain what were the probable factors affecting each.

Inseparable from his concepts which we have named degree of scarcity of each commodity and relative degrees of scarcity of all commodities, Menger developed what he or others afterwards named Capital goods and Complementary goods. Capital goods, the term introduced by Clark, are the physical instruments through which we expect to obtain control of consumption goods. The latter directly satisfy wants, the former indirectly. Capital goods get their present scarcity value from the expected scarcity values of the consumption goods, through man's knowledge of causes and effect, and Menger names the latter "goods of the first or lowest order", while the former are goods of the second, third, or fourth order, back to the land and the labor, which are goods of the highest order. Menger's "goods" are Clark's "capital goods", either Clark's "active" capital goods, which are the land and fixed capital, or Clark's "passive" capital goods which are the raw material passing through the process of production. The same principles of valuation appear, and Menger revealed the double meaning of fixed capital goods, just as Malthus and Ricardo had struggled over the double meaning of circulating commodities. It was again the distinction between efficiency and scarcity. All capital goods must have use-values, which are the physical qualities that fit them to produce the future use-values of consumption goods. This is Technology and

efficiency. But captial goods must have scarcity-values because they will not be produced in greater quantities than the expected scarcity values of their output will warrant. This is economy and Scarcity. And it is technology and efficiency that produce wealth. Economy restricts supply where technology augments it. Technology produces use-values, economy regulates scarcity values.

Hence Menger throws futurity into his meaning, both of utility, which we name scarcity-value, and of the useful physical qualities, which we name use-value. Use values are the expected useful physical qualities of both consumption goods and capital goods, regardless of quantities, and scarcity values are the future degrees of scarcity of consumption goods reflected back to the present control of quantities of instruments, by means of which the future quantities may be obtained. The distinction is that between technology and economy. Technology is the production of expected use-values through physical control of instruments, economy is the human purpose that connects the quantity of present goods as instruments with the quantity of future goods as ends.

But in order to obtain future goods a combination of several present instruments is needed, such as materials, labor, land, and this combination has both a technological and an economic connection. The technological connections are the physical apportionment of complementary goods for the production of use values, the province of the engineer and managerial transactions. The economic connections are the proportioning of the quantities of these complementary goods according to the present and expected degrees of scarcity of each,[1] the province of the business man and bargaining transactions. It is the latter that bring us back to the

1) Menger, Ibid., 1st ed. 7; 2d ed. 25, 72

relative scarcities upon the markets that determine prices.[2)]

Menger's meaning of private property is quite the same as Hamos'. It arises from scarcity. Insofar as the total quantity controllable by a total population is limited, relative to the total quantity wanted by the population, the collective action known as property is required in order to apportion to individuals or groups, the control of that part of it which bears the aforesaid relation of the quantity available for individuals to the quantity wanted by them. Since this control by individuals is a limited control apportioned by collective action, we name it the rights, duties, liberties and exposures of individuals in their limited control of that limited quantity of use-value, which becomes thereby scarcity-value.

Hence the concept of scarcity-value which we may derive from Menger may be reduced to the five characteristics: - use value, property-rights, degree of scarcity, relative scarcity, and futurity. Use-value is the physical qualities of goods; property rights are the collective rules and customs of apportionment of these limited quantities of goods; degree of scarcity is the ratio between quantity of a particular commodity wanted and the quantity available; relative scarcity is the various ratios between various degrees of scarcity; and futurity is the valuation of present scarcity goods as instruments for the purpose of obtaining control of the future scarcity goods as ends.

Thus Menger worked out in detail, under the name utility, the concept of scarcity value which Malthus had treated in gross. Where Malthus began with a total population pressing upon the means

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2) Menger, ibid., 1st ed. 172 ff; 2d ed. 182 ff.

subsistence, Menger began with an individual, and then by duplicating the individuals, arrived at the total population. Where Malthus, in practice, restricted the scarcity meaning of value to exchange-value on the markets, and made value in use "the intrinsic utility of an object" [1] regardless of abundance of scarcity, Menger made utility itself a scarcity concept, applicable both to value-in-exchange on the markets and value-in-use in the process of production. Where Malthus measured "real" value in terms of its power to command commodities and labor in exchange, and "nominal" value in terms of money, Menger made the term "nominal" equivalent to scarcity under the name "utility", and then Wieser converted this into a moneyless economy whose relative scarcities are measured by their marginal scarcities, under the name marginal utility. Where Malthus took property rights as self-evident, Menger itemised them as indispensable for making scarce goods controllable by individuals. Where Malthus implied futurity Menger made it stand out as the essential element in valuation, and where Malthus assumed that capital goods of course derived their present value from the expected wants of consumers, Menger revealed the mental mechanism of expectation by which it occurs. Thus Menger, in 1871, restored for succeeding economists the Malthusian version of scarcity-values, found in the limited wants of consumers, by extending their meaning back into the process of production, where Malthus had found scarcity values only in the marketing process, and saw only physical use-values in the process of production.

Ricardo had assumed unlimited wants of consumers for commodities in general, and so found his version of scarcity value in the resistance of nature in the process of production. Neither

1) Malthus, Pol. Econ. 49 (1821)

Malthus nor Ricardo had connected consumption with production, Ricardo because he assumed wants were unlimited, Malthus because production was a technological process of creating physical use-values. But Menger tied them together by Futurity. The demand for capital goods -- goods of the higher order -- is limited because the future demand of consumers for their products is limited.

We have thus, with Menger, both capital goods or commodities, and consumption goods, or their ultimate useing-up in the hands of consumers, governed by the same principles of limited quantity wanted relative to limited quantity available. This limited quantity available may be limited by property rights of other, or by the technological resistance of nature. With Ricardo we have only the latter reason of limitation, because, for him, any other limitation on supply was, not property, but monopoly. The defect of both Menger and Wieser was again the personification of scarcity. Where Ricardo personified scarcity objectively as embodied labor, Menger personified it subjectively as utility. These personifications were apparently useful for the pioneers in the infancy of the science but they pass away when the science becomes quantitative and statistical. They were talking poetry when they thought they were talking prose.

III Fund and Flow

Ricardo's scarcity injected two class struggles into economics, where, with Smith's abundance, had been harmony -- the struggle of capitalist and landlord, and the struggle of capitalist and laborer. The landlord's rent, if enhanced by a tariff on imports of food, was a deduction from profits, and profits were also reduced by an increase of wages, but were increased if wages were reduced. Since the total product is limited by nature's resistance,

larger share taken by landlords ~~and laborers~~ leaves a smaller share for capitalists.

Ricardo was thus the first clearly to distinguish the sharing of a limited product among classes from the personal incomes of individuals. For Smith the problem had been the augmentation of the product by nature and individuals, and the laws of distribution were similar for profits, wages and rent. For Ricardo the problem was the distribution of a limited total product, and the laws of profit, wages and rent were dissimilar. Ricardo had passed from the merchant-capitalist stage with its small manufacturers, farmers and retail merchants who worked along with their laborers, and had entered the employer-capitalist stage where the farmer, manufacturer, merchant and banker were the capitalists, paying rent to landlords and wages to laborers. Himself a financier on the money markets, he figured out the shares in distribution like the shares in a limited liability company. He took profits and interest for stockholders and bondholders as a matter of course, without which industry could not operate, and gave no explanation other than that they were what was left after paying rent and wages. Leaving the matter in this shape, and after showing that the landlord's rent was a payment of something for nothing, it remained for Marx to show that profits and interest were also a payment of something for nothing. This nothing was the property rights of landlords and capitalists; this something was the product of labor.

Marx consolidated Ricardo by beginning with society as a whole, where Ricardo began with Smith's division of labor among individuals. He thus merged all individuals and their products

into two opposing Funds, a Fund of Capital-value and a Fund of Labor-power. Individuals might come and go, but the fund flows along, with waves and oscillations, indeed, but intact. These funds were not a mental analogy -- they were as real as a river. They were constructed by a process of averaging and blending. "Some people might think", he said, "that if the value of a commodity is determined by the quantity of labor spent on it, and the more idle and unskillful the laborer, the more valuable would his commodity be, because more time would be required in its production. The labor, however, which forms the substance of value, is homogeneous human labor, expenditure of one uniform labor-power. The total labor-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labor-power, composed though it be of innumberable individual units. Each of these units is the same as any other, so far as it has the character of the average labor-power of society, and takes effect as such; that is, so far as it requires, for producing a commodity, no more time than is needed on an average, no more than is socially necessary".[1)]

Thus, for Marx, individuals and differentials disappear, and funds, take their place as homogeneous capital-value and homogeneous labor-power, divided into the aliquot parts, dollars and hours.

This picturesque analogy was afterwards reproduced by J.B. Clark, but with harmony instead of struggle. "The term Labor", says Clark, "is sometimes used to describe a permanent aggregation of laborers no one of whom lives and works through more than a brief

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1) Capital 1:46.

riod. Labor is thus analogous to capital and laborers to capital goods. A permanent working force is composed of perishable beings as a permanent producing fund is composed of perishable goods. Both are commonly described by the use of abstract terms, but both are in reality concrete things; and actually to reduce either to a mere abstraction would be to put a material entity out of existence. We instinctively speak of a value -- a given number of dollars -- in describing a man's capital, but it is dollars "invested in" productive instruements; and we instinctively speak of labor when we mean an abiding force of workingmen. Neither capital nor labor is like an immaterial soul that can live apart from its body. Each consists of a permanent body with a shifting composition. A permanent sum, on the one hand, a permanent amount of working energy, on the other, are always present, but they are in goods and men respectively. Each may well be described by the use of an abstract term, and in practical life it commonly is so; but it is a concrete reality. Capital is this permanent fund of productive goods, the identity of whose component elements is forever changing. Capital goods are the shifting component parts of the permanent aggregate." [1)]

Thus Clark's Capital, like that of Marx, is a capital fund, composed of a succession of capital goods, which are Marx's commoditics. And Clark's fund of working energy is Marx's Social Labor Power, measured likewise in dollars by Clark but man-hours by Marx. Clark followed Malthus and Marx, but Marx followed Ricardo. Like Malthus, Clark pictured society as one "great composite consumer" and, like Marx, as one great composite producer. While ultimate

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1) Clark, J.B., Essentials of Economic Theory, 39, 35-36. (1909)

Consumption is individualistic, yet consumers are buyers, and, as such, they are the "social valuers and appraisers" who "somewhere in the social organism" participate in fixing the values of goods.[1] And, like Marx, it is not individuals who produce -- "only society in its entirety is an all-round creator of goods". Also, like Marx, "division of labor and exchange merely describe in different ways the organized process of creating wealth, as contrasted with the method of isolated and independent production."[2]

Marx came upon this two-fold social process in his discussion with Proudhon prior to 1847.[3] Proudhon, like Smith and Ricardo, started with an individual producing utility values, who then turns to other individuals and proposes an exchange of products. But Proudhon, unlike Smith and Ricardo, separated production from marketing, and made utility-value the opposite and contradictory of exchange-value. His "utility-value" was Smith's and Ricardo's physical use-value, which increases with abundance, described by him as "the capacity possessed by all products, natural or industrial, to serve the subsistence of man". His exchange-value was Ricardo's "value" which decreases with abundance, described as the capacity they have of being given in exchange for each other."[4]

What Proudhon therefore meant by utility was physical use-value, whose increase is an increase in the happiness of man; and what he meant by exchange-value was scarcity-value whose increase reduces the happiness of man. They were opposite and contradictory, for Proudhon, just as they had been for Ricardo. For this was

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1) Clark, J.B. Distribution of Wealth, 25, 243, 244.
2) Clark, ibid., 11; Marx, Poverty of Philosophy, 94.
3) Cp. Engel's preface to Marx's Poverty of Philosophy. 9 (tr from original 1897).
4) Marx, Poverty of Philosophy, 39 (tr)

Ricardo's distinction between wealth and value, Menger's between goods quality and goods value, and Clark's between absolute utility and effective utility. Proudhon's utility-value was valeur en soi, Ricardo's wealth and Riches, Menger's goods quality, Clark's absolute utility -- in short physical use-value. And his exchange-value was Ricardo's Value, Menger's goods-value, Clark's effective utility -- in short, scarcity-value. Scarcity-value is the opposite and contradictory of use-value, for it increases by reducing the supply, but use-value increases by enlarging the supply. "Proudhon therefore is right", says Wieser, "when he affirms the antimony of exchange-value. Every undertaker finds it to his advantage when he succeeds in turning free goods which he cannot sell, into economically scarce goods which he can sell." 1)

Marx discovered that this contradiction arose from Proudhon's antithesis of production and marketing. Production creates use-value, marketing creates scarcity-value. Proudhon, in Hegelian fashion, had reconciled the antithesis by his idea of "constituted value". Constituted value was "synthetical value", the synthesis that reconciled the thesis, use-value, and its antithesis, scarcity-value. It turns out that by "constituted value" Proudhon meant the value that would be freely agreed upon by two persons on a market if they were entirely equal and entirely free of any form of collective compulsion either by government or any other association.[2] His synthesis was anarchism.

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1) Wieser, Natural Value, 55. But Wieser goes on to show that the antimony does not exist in the 'up grade' of his paradox of value.
2) Proudhon, P.J., Systeme des Contradictions Economiques, on Philosophe de la Misere, book I, chap II. (1st ed. 1895), (2d ed. 1850).

But Marx denied the antithesis both of production versus exchange and of use-value versus exchange-value. They might be antithetical if we start with individuals producing in isolation, who then look around for other isolated individuals with whom they purpose to exchange their surplus products. But this is a false start. There are no such surplus products. None are produced for self with a surplus produced for others. All are produced for exchange. Production does not end before exchange starts. They are the same labor process, and hence exchange is itself a form of production. Division of labor and exchange are merely descriptions of social production. "From the moment that you suppose more than one hand assisting in production you have already supposed a whole system of production based on the sub-division of labor." Other individuals are indeed collaborators, as Proudhon had suggested, but this means that they are not individuals. They are different functions in the same social process. "The collaborators, and the diverse functions, the division of labor and the exchange which it indicates are all existing already...It would have been just as well to have supposed exchange-value in the first place." [1)]

This is what Marx did. There is therefore for him, no opposition or contradiction between use-value and exchange value. Exchange value is si ply a "form" that use value takes in the social process of production. The use-values of society are not a sum of individual use-values, they are each of them already a social-use-value in the very process of production for use by others through division of labor and exchange. Exchange does not add to the value of commodities, nor deduct from their value, nor contradict their value, any more than the "form" of a bushel of wheat changes the

1) Marx, Capital Book I, Chapter 1.

unt of wheat when it passes from a farmer's wagon to a merchant's bin. In the parallel words of Clark, the terms "division of labor" and "exchange value" merely describe the organized process of creating wealth, contrasted with isolated and independent production. Clark's capital goods do not change their value when the business man buys or sells them and thereby changes them from capital goods to capital fund. And Marx's "Commodities" do not change their value when they become capital.

Thus while Proudhon's antithesis of use-value and exchange-value led to the equality and liberty of individuals in the synthetic values of anarchism, Marx's identity of use-value and exchange-value led to the subordination of individuals in the social values of communism. Their difference arose out of the difference between Merchant capitalism and Employer capitalism. Proudhon had his eye on the great merchants and bankers who controlled the commodity markets of the small employers, farmers and laborers working together, thereby reducing them to a sweatshop competition, but Marx had his mind on the process of production itself where the capitalist was the employer, controlling production and exchange and reducing the wage-earners to competitive slavery. Hence Proudhon would oust the wholesale merchants and the bankers from the markets by cooperative marketing and banking, retaining, however, individual production; but Marx would oust the employers from the shops by common ownership and governmental organization of production and exchange. Proudhon did not distinguish rent, profit, and wages when paid to small producers. They were different forms of the same compensation for labor. Proudhon was Smith

rchised. But Marx combined Ricardo's unearned incomes of landlords and his unaccounted profits of capitalists by merging them into a common fund of social-use-value produced by social labor power, but extracted and accumulated by capitalists in the process of production. Marx's laborers were a hive of bees; his capitalist their owner. 1)

But, while Marx condemned Proudhon for his antithesis of producing use-value and then marketing their scarcity-value, Marx had already changed the physical use-value of Smith, Ricardo and Proudhon to the scarcity-value of Ricardo. It was none other than Ricardo's Value -- scarcity value personified as embodied labor. He thought he was following Ricardo, but he had not retained Ricardo's distinction between use-value and value. Ricardo's use-value was riches and wealth, his "value" was scarcity-value. Marx was answering Proudhon's contradiction of use-value versus scarcity-value by the similar contradiction of "producing" scarcity-value, and this was done by changing the meaning of use-value to scarcity-value. His social-use-value was not Ricardo's riches and wealth, it was Ricardo's scarcity-value personified as embodied labor.

Marx plainly understood that Ricardo's meaning of value was scarcity value, and he quotes against Proudhon Ricardo's criticism of Lauderdale and Malthus. "It is through confounding the ideas of value and wealth, or riches, that it has been asserted that by diminishing the quantity of commodities, that is to say, of the necessaries, conveniences and enjoyments of human life, riches may be increased." 2) Thus Marx understood Ricardo's "value" to be

1) Marx, Capital 1:000.
2) Marx, Poverty of Philosophy, 38,39

equivalent to scarcity-value, and Ricardo's wealth to be equivalent to abundance of Adam, Smith's meaning of use-value. He uses Ricardo in this connection to show that Ricardo had already exposed Proudhon's fallacy, when he answered Lauderdale and Malthus, but in other connections he changes Ricardo's meaning of use-value to Ricardo's contradictory meaning of value.

This is seen in his assertion that demand was essential to Ricardo's meaning of value. A thing had to be in demand, else embodied labor could not give value to it. "The difficulty of Proudhon", he said "is simply that he has forgotten demand, and that a thing can only be scarce or abundant according as it is in demand. Demand once set aside he assimilates exchange-value to scarcity and use-value to abundance." Consequently, Proudhon, after making exchange-value equivalent to scarcity, and utility value equivalent to abundance, "is astonished not to find utility-value in scarcity and exchange-value, nor exchange-value in abundance and utility value. He never will find them together "while he continues to exclude demand". Proudhon's "abundance", said Marx, seemed to be "something spontaneous. He all at once forgets that there are people who produce and that it is to their interest never to lose sight of the demand." 1)

In other words, Marx's "producer" not only produces use-value but also limits its quantity in the process so that expected demand will give exchange-value to it. His use-value is already a scarcity-value.

It must be noted that by the value of commodities Marx meant the total money value of all national wealth as measured by

1) Poverty, 41,42

he census, but, instead of measuring it in dollars, he measured it in embodied labor. Commodities, for him, were every accumulation of embodied labor, no matter how great their scarcity-value, so long as they had actually or potentially exchange-value. Thus they included all land values, all monopolies, all buildings, all machinery, soil fertility, and all circulating commodities up to the point of final delivery to the ultimate consumer. By his process of averaging and eliminating differentials he reduced this total capital value of a nation to the average scarcity value produced by a nation of homogeneous labor.

At first sight, in his volume on Capital, it must be conceded that in his analysis of a commodity he does not appear to have changed Ricardo's meaning of use-value from physical abundance to volitional scarcity. Sometimes his meaning is ambiguous, as when he says "nothing can have value without being an object of utility. If the thing is useless, so is the labor contained in it; the labor does not count as labor, and therefore creates no value." 1)

Here the question arises, is it useless because its physical qualities are such that it cannot be used -- like rotten apples -- or is it useless because the quantity available is larger than the quantity wanted -- like too many good apples? Is it useless as use-value, or useless as scarcity-value?

In some cases Marx seems to mean that use-value is only a physical quality. Thus he says that the exchange value of commodities "manifests itself as something totally independent of their use-value." 2) "Use-value is independent of the amount of

1) Capital, 48
2) Capital, 45

labor required to appropriate its useful qualities." "Use values furnish the material for a special study, that of the commercial knowledge of commodities." 1) "Use-value as such lies outside the sphere of investigation of political economy."2)

But at other places he indicates clearly that by use-value he means useful insofar as the quantity supplied is not in excess of the quantity wanted or needed for use, and useless if too abundant. He says "use-values become a reality only by use or consumption". "When treating of use-value we always assume to be dealing with definite quantities, such as dozens of watches, yards of linen, or tons of iron." 3) "Use value has a value only in use and is realized only in the process of consumption. The same use-value may be utilized in various ways. But the extent of its possible applications is circumscribed by its distinct properties. Furthermore, it is thus limited not only qualitatively but also quantitatively." 4) "The same labor may be embodied in two bushels of wheat in a favorable season, and only in one in an unfavorable season. In this case, scarcity or abundance, as natural conditions seem to determine the exchange-value of commodities, because they determine the productivity of certain kinds of labor which depend on natural conditions." 5)

In other words, use-value varies directly with scarcity of nature's resources and inversely to the abundance of resources, because if resources are scarce a greater quantity of labor is required to produce the commodity wanted, but if resources are

1) Capital 42.
2) Critique, 21
3) Capital, 42
4) Critique, 20
5) Critique, 35

abundant a lesser quantity of labor is required to produce it. It is exactly Ricardo's idea of value, and not Ricardo's idea of use-value. But it is Ricardo's personification of scarcity value as the quantity of labor paid to nature for commodities. What Marx actually says is that both use-value and exchange-value are scarcity values because the amount of labor required to produce them varies directly with their scarcity and inversely to their abundance. The reason for this is, as quoted above, that the producer of use-value is producing in limited quantities because he has an eye on the limited quantity wanted by consumers.

We conclude that Marx's use value is not Ricardo's or Smith's physical use-value which increases with abundance; it is that limited quantity of use value that can be realized in consumption -- Menger's ratio of quantity wanted to quantity available -- and it is only the scarcity of labor-power needed to make available this limited quantity of use-value that is his "socially necessary labor-time." [1] But a limited quantity wanted, relative to a limited quantity available, is scarcity value.

By "socially useful labor" and socially useless labor, therefore we infer that Marx means to include the creation of both physical use-value and that concrete scarcity-value which a particular quantity of use-value has at a time and place when and where wanted. He had not analysed it, like Menger, but that is what he meant. Useless labor is that which creates something not wanted then and there, either because its qualities are physically useless, or because labor is wasted by producing more than consumers can utilize. But labor is that which produces things physically useful and in the limited quantities wanted at a time

1) Capital, 46

and place by users. It produces both use-value and scarcity-value in the same process, by producing use values in limited quantities with regard to the demand of consumers.

If we attempt to explain systematically Marx's contradiction contained in his idea of producing scarcity-values we shall cover the following particulars:- (1) the method of reasoning from physical analogy, (2) the personification of scarcity, (3) the fallacy of averages, (4) the concept of unlimited demand, (5) the elimination of the paradox of value, (6) the confusion of income and outgo with output and input, and (7) the confusion of a physical process with a proprietary process.

(1) By his method of physical analogy, Marx looked upon use-value as merely physical qualities of value, contrasted with the "form" exchange-value given to them by his composite value-creating-substance, embodied labor. Use-value has its significance for him only in the fact that different kinds of use-value are a condition without which there would be no division of labor and no exchange of commodities. "Use values cannot confront each other as commodities, unless the useful labor embodied in them is qualitatively different in each of them." 1) Hence use-value is the kind of value embodied by different kinds of labor -- shoemakers, hat makers, et al. This is social-use-value because it is used by others not the specific producer. But the common substance underlying all use-values and exchange-values, is the homogeneous human labor power, stripped of its different kinds. When commodities are "looked at as crystals of this social substance, common to them all, they are -- Values."2)

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1) Cap. 99
2) Cap. 45

Thus the kind of value is the different physical qualities of use-value, the form of value is its exchange-value; the cause, the "value-creating substance", the "unsubstantial reality" in each commodity is this "mere congelation of homogeneous human labor", whose magnitude is measured by its two dimensions, number of hours and rate of output per hour.[1)]

So it is with all kinds and forms of production, whether determined by the greater or less productiveness of agriculture in different seasons, or by the average amount of skill, or the state of science, or the degree of its practical application, or the extent and capabilities of the means of production, or by physical conditions. In all cases "the value of a commodity varies directly as the quantity, and inversely as the productiveness of the labor incorporated in it." [2)] Which, being converted into the distinction between value, and price, means that the value of a commodity consists of the two dimensions, the physical dimension of the number of hours devoted to its production and the scarcity dimension of the ratio of exchange with nature which varies inversely to the resistance of nature's forces.

(2) The personification of scarcity arises from this two-fold dimension of value as the number of labor hours devoted to producing the commodity and the price paid per hour to nature in exchange for her products available for man's use. If nature is productive, like a bumper crop, then the price paid per bushel in terms of labor was low. If nature was niggardly, like a scarce crop, then the price per bushel was high, in terms of labor.

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1) Capital, 45
2) Capital, 47

This personification of scarcity was useful in getting away from the money-prices and artificial scarcities of mercantilism, and it resolved prices into natural prices which then could be used as a standard in contrast to artificial prices. If two producers exchange their hats and shoes at the same ratio at which each had paid to nature, then their market prices were natural prices, otherwise nominal prices. What the two producers paid as outgo for an income from nature was their labor-power accompanied by toil and trouble. It was a natural scarcity substituted for the artificial scarcities of mercantilism. And if, therefore, they exchanged their two commodities on the markets at the same ratios of exchange as their exchange with nature, then the market price was a natural price -- otherwise a nominal price.

Consistently with this idea, Marx's unit of natural scarcity, like Ricardo's, was a labor-hour unit instead of a money-unit. It was the quantity of labor per hour paid for a quantity of commodity per hour. Hence the physical units of measurement, the bushel, the yard, the ton, were eliminated and all the different kinds of use-value and their different kinds of measurement were reduced to the uniform average use-value received in exchange for a fixed unit of purchasing power, the average man-hour. Consequently the customary unit of scarcity, the dollar, was also eliminated. The scarcity of a bushel of wheat was measured, not by the money paid per bushel, but by the number of labor-hours per bushel. The measurement occurs in the process of production and not upon the markets. The unit of scarcity was the man-hour and the relative scarcities of different products varied inversely to the quantity of use-value received for this fixed unit of meas-

crement. And the value of a certain quantity of product was the number of labor-hours paid for it at this price per hour.

Therefore, in his system, we do not measure the different kinds of use values at all, by the ordinary physical units of bushel, yard, or ton; we measure only their scarcity values. And we measure these, not by the number of dollars and cents paid per bushel, yard or ton, but by the number of labor-hours paid per bushel, yard or ton. Hence the measurement of all use-values is eliminated, and all scarcity values of all commodities are merged into one grand sum of scarcity values, under the name Social-use-value, measured by the number of scarcity units, each unit being the average quantity of labor per hour paid to obtain them.

(3) This uniform time unit is Marx's fallacy of averages. It is evident that he could not have merged all the different kinds of use-value into one social-use-value, and all the different personified prices paid by man to nature into one social labor-power except by this fallacy of averaging the rate of output per hour. Ricardo had made two uses of this labor-time unit, one applying to agriculture, the other to manufactures. In the case of agriculture there is an increasing labor-outgo per unit of product, that is, an increasing natural price -- as production is forced down to lower levels where embodied labor, the price per bushel, is larger. At any particular stage in this pressure of population, however, the then set of natural prices is a set of differential prices owing to differences per unit of product in the amounts of embodied labor paid out. The value, therefore, of the total supply at that particular stage, owing to the one-price principle of free competition, is determined by the highest

price, which is the highest natural price per unit, because it is the largest amount of embodied labor per bushel, as found at the then margin of cultivation. (See Figure IX, the marginal embodied labor BH)

But in Ricardo's manufactures there was no differential productivity, since here he also used averages instead of differentials. Hence the amount of embodied labor per unit -- the natural price of, say, a pair of shoes -- is the same for all shoes of the same kind. The value, therefore, of a quantity of shoes, varies directly with the number of hours, a thousand pairs having a value equal to a thousand times the natural price or value per unit, which is the quantity of embodied labor per pair.

Thus embodied labor, in manufactures, was a uniform price paid to nature -- that is, a uniform natural price per unit of product, and the total market value of the total quantity is simply the sum of the equal natural values of all the unit of output. But, in agriculture, the embodied labor was a set of differential prices paid to nature, expressed as differences in embodied labor -- and here the total market value of the total quantity is not the sum of equal unit-values -- the one-price principle prevents that -- it is the sum of the marginal unit values, so that the result of the differential unit values, combined with the one-price principle on the markets, is rent. (See Figure IX, the marginal embodied labor BH, and the differentials measured from EH to CH). But Marx eliminated all differentials by averaging them, and thereby applied to all industries the uniform natural prices paid to nature which Ricardo applied only to manufactures.

Since he was interpreting the total money values of all monopolies, corporations, land values, improvements and personal property, as shown by the census of national wealth, his process of averaging reduced them all, regardless of differences, into the total number of labor-hours devoted to their production, at the average rate of production per hour. The process, however, is not so very different from that of the census takers. They measure the national wealth in terms of scarcity, using the dollar as the unit. Marx measured the National wealth also in terms of scarcity, but used the labor-hour as the unit.

(4) We have already commented upon the effect of Ricardo's idea of unlimited demand of consumers. Unlimited demand by consumers does not eliminate demand altogether. There can be no concept of scarcity without a concept of consumer's demand. Hence the elimination of their demand is an assumption that their demand is constant per unit of product, and therefore we can only say that it is an inelastic demand regardless of the great or small quantity of commodities produced to satisfy it.

But Ricardo had a limit of demand, for it was the limit of effectual demand of producers whose products offered in exchange were the effectual demand for other products offered in exchange. If demand of consumers, therefore, is inelastic and constant, it is the same as saying that, no matter how large the quantity produced it will have no effect on the ratios of exchange but will merely cause the other products to be increased to the corresponding amount, and thus maintain their ratio of exchange constant at the same point as before. This equalization was effected, according to

ardo, by an automatic immediate transfer from the product over-produced to the product under-produced, and, as long as this transfer is unobstructed, assuming total demand unlimited, any increase in production in any branch of industry immediately induces a corresponding increase in all other branches with which the increased product is exchanged. Thus his limit of demand was not the diminishing quantities wanted by consumers, as Menger afterwards showed, but was the limited quantity supplied by producers. Relative scarcities still remained, but they belonged to the process of production and equalization of productivity through transfers from one branch to another according to the relative natural scarcities of each.

In this he was followed by Marx, who although he charged Proudhon with forgetting demand of consumers, he also forgot it, or rather assumed that it was constant and absolutely inelastic, since he had no method of measuring it as a limiting factor, diminishing until it stopped at the point of final or marginal utility.

(5) This idea of a constant, or inelastic demand for all commodities, no mat ter how large or small the quantity of each, eliminates the paradox of value, afterwards propounded by Wieser but having many illustrations in all branches of economics. The paradox of value arises from the fact of diminishing scarcity (utility) that goes along with increasing abundance. If scarcity does not diminish with increasing abundance, then there is no paradox of an "upgrade" when physical quantity increases faster than diminishing scarcity or "downgrade" when diminishing scarcity exceeds the increasing abundance. It is the paradox of two variables, physical quantity and relative scarcity. The scarcity dimension is

elated and measured if the unit of one commodity is fixed by stom or law, the bushel, ton, etc. and then the variable number of fixed units of other things exchanged for it is the measure of the scarcity of the one that is fixed, namely its price expressed in the variable quantity.

It turns out that three different kinds of units of these variable quantities have been used in economic theory with which these relative scarcities may be measured.

(1) The unit of money, the dollar or other unit of pure gold or silver, is the customary unit, and the variable number of these units received in exchange is the customary measuring of price. And the sum of the prices determined by the number of the physical bushels or tons having this same price is the customary meaning of value. Money value is the number of physical units each having the same number of units of money exchanged for it. But in order to get away from the artificial money economy, the two "natural" units have been substituted.

(2) The hedonistic economists substituted a unit of feeling, utility, which if it has any dimensions, is the variable number of supposed fixed units of intensity of feeling enjoyed or expected, upon receipt of a fixed unit of the commodity. The marginal utility is the number of these feeling units obtained at any point in the scale of diminishing number of feeling units, which, at the time, is set by the quantity available. Wieser thereupon construed the concept of value as an adaptation of the customary concept, of the total number of physical units of commodity, each having the same number of units of intensity of feeling exchanged for it. This is evidently a personification of money price and money value, worked

ut in order to illustrate the changes in pleasurable income resulting from increasing abundance and its equivalent, diminishing scarcity.

(3) The other personification of natural price worked out by Marx in his elaboration of Ricardo, was, not the number of fixed units of money, nor the number of fixed units of feeling received, but was the number of fixed units of labor-time, one hour, paid by the average laborer in exchange for the fixed unit of commodity. The quantity of commodity is fixed as one unit but the number of units of labor time is variable and this variability is the natural scarcity. The Marxian concept of value was therefore likewise, an adaptation of the customary concept of the total number of physical units of commodity each having the same number of labor-hours exchanged for it. This again is a personification of money-price and money value, worked out, not to show the changes in intensity of pleasurable income, but the changes in quantity of painful outgo resulting from abundance or scarcity.

It is this meaning of value distinguished from price, but with an ever-present but constant demand, that explains Ricardo's and Marx's meaning of value with the difference, however, that they did not measure the physical dimension of value by the number of physical units, (bushels, yards, or tons), but by the number of labor-hours required to produce the quantity. And they did not measure the scarcity dimension of value by the number of dollars and cents per bushel, yard, or ton, but they measured it by the number of labor hours at the given rate of product per hour. Hence the Ricardo-Marxian concept of value is the same as that which afterwards became Wieser's paradox of value, but without the paradox

cause demand was made inelastic. The value of a single commodity of two dimensions, the physical dimension measured by the number of man-hours required to produce the quantity, and the scarcity dimension measured, not by a diminishing price, but by an average price for that commodity, the number of labor-hours.

Consequently, in Ricardo's manufactures and Marx's social-use-values, the paradox of value does not occur -- there is a uniform price paid to nature -- the uniform unit value of embodied labor. And this occurs, no matter how large the quantity of output. If the quantity of output is increased by working longer hours, it is the same quantity of labor per unit -- the same quantity of unit-value or price paid to nature. Hence nature's resistance is reduced to average resistance; this average resistance if, of course, uniform for each unit of output; and the total value of the social output is composed of the two dimensions, the physical dimension of total product and the uniform scarcity dimension of an average price paid to nature in terms of embodied labor.

The method is analogous to a modern cost-keeping system wherein the various costs of labor and fixed charges are reduced to a time-unit basis, the minute, second or hour, and the total estimated cost of a product is the number of time units required at the average cost per unit of time. The paradox of value is here also eliminated because prices and wages are assumed by the cost accountant to be constant, and are taken at what they happen to be at the time. He therefore says that so much <u>value</u> is produced per hour, and the value of the product is the number of productive hours, although the value thus produced is the scarcity value at existing prices and wages, and has nothing to do with use-value. It is not

a accountant's function to attend to the probable effect on relative scarcities if the quantity of output is enlarged -- that is the business man's function. And Marx, by eliminating demand had eliminated the business function and thus had resolved the whole subject of political economy into a clerical system of cost-keeping at current prices in the process of production.

Hence, for Marx, it is not a paradox nor a contradiction to say that social labor-power produces scarcity-value. Scarcity-value has already been read uniformly into each unit of output, just as the cost accountant takes it to be an unchanging set of prices and wages. And therefore, if production is measured by labor-time; if each unit of labor-time is a uniform unit of scarcity-value; and if this scarcity value is personified as a uniform price in terms of labor paid to acquire income from nature, then the personification conceals the contradiction of "producing" scarcity value. To augment the quantity of scarcity values is merely to augment the physical quantity of an output each unit of which already contains the same scarcity value because it does not diminish with abundance. And this is not different from the familiar practice, already mentioned, of speaking of value as composed of two dimensions, the physical dimension of quantity produced and the scarcity dimension of money price per unit of that quantity. The only difference is that the scarcity dimension is the number of average labor-hours instead of the number of dollars.

The formula for Marx's reasoning wherein the paradox of value is eliminated on the assumption of unlimited and therefore constant demand, may be diagrammed as follows:

Hats		Money		Shoes	
Use Value	Exchange Value	Exchange Value	Exchange Value	Exchange Value	Use Value
Labor Substance (Scarcity Value)		Labor Substance (Scarcity Value)		Labor Substance (Scarcity Value)	
Labor hours	10		10		10

Measuring horizontally the number of labor-hours, and vertically the uniform amount of embodied labor per hour, that is, the uniform natural price, it follows that the same number of hours devoted to a commodity has the same quantity of embodied labor whether in hats or shoes or money and therefore they exchange at the ratio of the number of labor-hours. The unit of scarcity-value is not the price per hat or pair of shoes, it is the number of labor hour units. The medium of exchange is metallic money, which, however, has not use-value, yet has equivalent exchange value determined also by the number of its embodied time units of labor.

Since, however, this uniform labor substance is merely a personification of a uniform price paid to nature at each hour of production, it follows that the value of the hats, or shoes, or money, whether it be the "kind" of use-value or the "form" of exchange-value, will always be proportional to the number of hours of the accumulated cost prices per hour paid to nature. The paradox of value has been eliminated by eliminating the elasticity of demand, and all rents and differentials are eliminated by averaging the natural prices paid to nature, so that the value of each commodity, including money, is the sum of as many hours which constitute the physical dimension, each hourly unit representing the same

change ratio between an hour of labor as outgo and an hour of use-value as output.

The diagram illustrates how it was that Marx found his surplus value in long hours of work instead of inequalities of bargaining power. He eliminated inequalities of bargaining power by eliminating demand and thereby assuming that demand was constant and absolutely inelastic. Thereby he reversed cause and effect, or put the effect for the cause. Long hours of work are a consequence of inequality of bargaining power, and inequality of bargaining power is inequality of needs for commodities or services at the time and place and all the inequalities that determine relative scarcities. It is the difference between explaining events by personification or physical analogy, and explaining them by transactions.

The fallacy is, at bottom, the fallacy of confusing efficiency with scarcity, and is not apparent until use-value is distinguished, as Ricardo attempted to do, from scarcity value. But even then it is not apparent when the output of use-values is measured either in embodied labor units, or in embodied dollars, both of which are the units of scarcity-value. The distinction becomes clear only when consistent terminology is employed and the output of physical use-values is measured in man-hours, but the scarcity of that output is measured in dollars. Marx confused efficiency and scarcity by measuring a sum of scarcity values by the man-hours required to produce them instead of measuring efficiency by manhours and scarcity by dollars.

(6) This confusion of efficiency with scarcity is equivalent to confusion of output with income, and input with outgo. The engineering concept of producing an output is not distinguished from the scarcity concept of acquiring an income; and the engineering concept of an input of energy is not distinguished from the scarcity concept of an outgo which lessens the limited supply on hand. By assuming that, of course, the purpose of production is to acquire an income, the assumption is made that production consists in producing an income, whereas it produces only an output of use values. And conversely by assuming that a person would not willingly suffer an outgo which diminishes his limited stock unless he expected an income which augments this or another stock, the personification is made that the input is a price paid for an income, whereas it is only a physical input compared with an expected output, regardless of demand, supply or price.

The distinction may be cleared by noticing the well recognized double process of production and acquisition that occurs in any factory. An output of, say, 1000 tons of a kind of use-value known as pig-iron, is produced during, say, 10,000 hours of human labor. Human labor is the input, use-value is the output. The process is technological and has nothing whatever to do, as such, with demand, supply or price. All that is told is the rate of efficiency -- the productivity of labor and management in that establishment. The ratio of output to input is the measure of efficiency -- one ton per ten man-hours, or one tenth of a ton per man-hour.

But these thousand tons are added to a stock of pig iron on hand, increasing thereby the "invisible supply", that is, the supply not yet offered upon the markets. It adds to inventory. It be-

goes thereby proprietary income for the owner of the inventory. It increases supply.

The opposite of this is outgo -- the conversion of this invisible supply into visible supply offered on the markets. The income augments the owner's invisible supply, thus tending to decrease the scarcity-value per unit of the stock on hand; but the outgo augments the visible supply, thus tending to reduce the unit price on the market by augmenting the visible supply. The very process of outgo which reduces the owner's inventory and tends to increase the value per unit of his invisible supply, is an offer of income for the buyer, tending to increase the visible supply and reduce its price upon the market.

The ratio of income to outgo of inventory is therefore a rate at which scarcity and abundance of invisible supply are being increased or diminished. If the income added to inventory, is 1000 tons, but the outgo, deducted from the inventory, is 3000 tons during the unit of time, say one day, then the rate at which invisible supply is being reduced is 3 to 1, a reduction of 2000 tons per day; and, conversely, the rate at which visible supply is being increased by that operation is the same 2000 tons per day. This is to be compared with the rate at which other parts of the visible supply are being taken off the market by buyers, in order to ascertain the increasing or decreasing rate at which scarcity or abundance of visible supply is being augmented or reduced.

Other illustrations occur. Evidently the output-input relation is wholly different from the income-outgo relation. They involve two entirely different types of transactions, the managerial transaction of producing an output and the bargaining transaction of

determining how much and at what prices visible and invisible stocks shall be increased or diminished by buying and selling. The output-input rate per man-hour is the measure of efficiency, the income-outgo rate is the measure of the rate at which supply, visible or invisible, is increasing or decreasing. The two, while entirely different, are not allowed to fly off separately, for they are coordinated, more or less successfully, by the business policy of a going concern.

But by merging the two in the physical process of production, Marx contradictorily says that the laborer produces an income whereas it produces an output; and pays to nature an outgo in exchange for income, whereas it is not outgo, but is input. Ricardo's meanings, however, fit the distinction between different rates of efficiency which measure the output of use values regardless of scarcity, and different rates of increase or decrease of supply which are the income and outgo of limited quantities of use-values. But he and Marx personified input. It was not a mere technological fact -- it was an outgo from a limited stock on hand, a natural price paid by man to nature in exchange for a limited income of use-values. They merged the efficiency process of output of use-values relative to input of labor with the scarcity process of limited quantities of income and outgo relative to the existing quantities of supply and demand.

Hence the Ricardo-Marxian meaning of exchange-value has a redundant meaning -- it is already a production, not of output, but of income before the exchange is made, and again a production of income from other persons when the exchange is made. Had the distinction been drawn between the technical process of producing

use-values as output, and the proprietary process of acquiring ownership of those use-values as income, then Marx's social-use-value would not have contained the redundant meaning of producing an output and producing an income. Social-labor-power is input and use-values are output, but the business control determines income and outgo. One is the principle of efficiency with its managerial transactions, the other the principle of scarcity with its bargaining and credit transactions.

(7) To confuse the two is the confusion of a physical with a proprietary process. It is upon this distinction between physics and property that the distinction between use-value and scarcity-value rests. Marx and Ricardo used the term "exchange" in the same physical sense as the term production. Production and exchange were the labor-process of producing limited quantities of commodities and delivering them physically in exchange one with another. Thus the business process of regulating or controlling supply, demand and price was read into the physicical process of producing an output. Proudhon had correctly distinguished exchange from production. Exchange, for him was the business process of marketing, and of borrowing and lending for purposes of marketing, and production was the physical process of producing, not scarcity values, but use-values.

This business process is a proprietary process of holding, withholding and transferring the legal control of goods, but the production process is the labor-process of physically producing and physically delivering the goods. Whoever controls the legal process controls the relative scarcities of goods by controlling their supply, demand, and price. This was Proudhon's Merchant and Banker,

se property was "robbery", and should be displaced by cooperative marketing and banking.

But Marx, like Ricardo, extended this proprietary process into the factories. With him it was the employer who was the proprietor and the marketing process was, in fact, the labor-market at the doors of the factory, where legal control of input and output was decided. Hence the employer controlled the relative scarcities, not only of commodities already produced as did the merchant, but the relative scarcities of labor and commodities in the process of production itself. The employer controlled the supply, demand and prices both of the input of labor and the output of labor.

But Marx's "employer" was, not an individual employer -- it was a social combination of employer-merchant-banker, all of them "capitalist colleagues" in control of government, and their combined property was "exploitation" of labor on the labor-market. While, for Proudhon, property was the control of relative scarcities on the markets after commodities had been produced, for Marx property was the sheer threat of physical violence by sovereignty compelling laborers to work long hours in the physical production and physical delivery of goods in the social process of division of labor, and then physically taking from them by threat of violence the social-use-values which they created. It was Clark who reduced Marx's violence of sovereignty to the economic scarcity-values of property.

If we observe the distinction above noted between the efficiency ratio of output-input, and the scarcity ratio of income-outgo we are in position to separate the double meaning of production as wealth-productivity and value-productivity, employing the distinc-

tion made by Ricardo, but not by Marx. Starting with the collective action of all producers of a certain commodity, wealth-production is the augmentation of the output of physical use-values, but value-productivity is the restriction of outgo in order to maintain or augment its scarcity-value. The restriction of outgo on the markets is, indeed, usually regulated by restricting the output in the process of production, but the two are not identical, for the output first becomes income which augments the invisible supply, and the outgo from that invisible supply does not coincide in time and amount with the invisible income. Hence, since it is mainly the effect on market prices that the business man has in mind, the technically correct statement is restriction of output. For, if the term output is restricted to the physical engineering process, as it should be, then it is not the engineering function to restrict output -- his is the function of augmenting wealth by enlarging output. But he is controlled by the business function which perceives the depressing effect of too much output if it forces too much outgo of visible supply on the markets. Since, however, the engineer is controlled by the business man, the short-cut, popular and elliptical way of stating the scarcity relation is to state it as restriction of output. Since restriction of output maintains or augments scarcity values, it is in this way, of course, that income is augmented in the sense of a larger income of other products received in exchange. The ratio of this income received to this outgo suffered is the relative scarcity, at that time and place, of the two products exchanged.

With this distinction in mind, therefore, the concept of productivity is composed of three constituent dimensions, the efficiency ratio of output to input per standard unit of time, the man-hour; the number of hours and the number of workers. This is the Marxian formula of the quantity of value contained in a commodity, and it is the correct formula if by value is meant Ricardo's use-value, but not if the meaning is Ricardo's value or Marx's social use-value. The quantity of use-value may be measured by the accumulated number of man hours required to produce it, and this method of measurement is useful when comparing the efficiency of one establishment with another, or the same establishment at successive periods of time. But it is output, not income, use value, not scarcity value, that is measured. The physical analogy of embodied labor is the quantity of labor required to produce the quantity of use-value, measured by the three dimensions of rate of output per hour, or efficiency, number of hours and number of men. This gives the physical concept of capital-value as the amount of embodied labor, but the kind of value intended is its use-value as a productive instrument which is useful because it increases, in turn, the quantity of the different kinds of use-value produced by the useful qualities of the said capital. It is the use-value of a steam engine for the purpose of increasing the quantity of use-values in the shape of shoes.

If, however, the very different scarcity dimensions are to be measured as they accompany these physical changes, then the standard unit of measurement is the dollar. When the output becomes income added to the inventory it is so many dollars invested in output as wage payments and other payments, usually in the form of promises

pay at a later date, but immediately transformed into added dollars' worth of business assets valued at the current or expected prices on the commodity market. Hence the income is dollars' worth of income added to assets at the cost prices which, by analogy is the quantity of embodied dollars promised as future outgo in order to obtain the present income. And when these physical goods are taken out of inventory and sold they become outgo of dollars' worth of assets sold for an income of money, or rather for a promise to pay which the bank converts into money equivalent. Hence the formula for an inventory of assets, which now is not capital in the Ricardian sense of producing use values but in the Malthusian sense of producing scarcity values, is composed of these constituents; - the rate at which dollar's worth of income is added to assets relative to dollars worth of outgo deducted from assets, the total changing quantity of assets on hand is inventory valued in dollars, and the liabilities in dollars deducted from assets.

This rather meticulous description seems necessary in order to point out the notable confusion displayed when the term productivity is employed to mean value-productivity. It does mean value productivity indeed, but it is physical use-value. This, however, is not the meaning given by Marx, Clark, and others when they speak of value-productivity, or production of an "income" where they should say "output". The only fit meaning that can be assigned to their terms is scarcity value, and scarcity value is not produced -- it is bargained. It is, as Veblen says, the sagacious withholding of beneficial service.

Clark's analysis of a commodity turns also on its scarcity-value, and his fund of social labor energy also produces scarcity-values. Unlike Marx, however, but like Menger, he begins with the consumer's limited wants, where Marx began with the producer's limited supply for those wants. For Clark, scarcity is essential to wealth, and he uses the illustration which Ricardo resented in distinguishing value from wealth.[1] "A bucketful of water on the shore of Lake Superior is of no importance to the man who has it... If, however, fresh water were scarce, every bucketful would have its importance, and the loss of that quantity would make a distinct impression on the man's well being. Whenever each particular part of the supply has this power to make a possessor better off than he would be without it, the substance is a form of wealth. The quality of being specifically important, is, therefore, the essential attribute of all forms of concrete wealth...Water in Lake-superior has the power to quench thirst, but...not the attribute which would make it a form of wealth, namely specific importance. Particular parts of the supply may be lost with impunity."

Thus Clark's "specific importance" is Menger's relation of quantity wanted to quantity available at the time and place, and to Marx's limited quantity of use values needed by consumers, but is the opposite of Ricardo's meaning of wealth. To his own meaning Clark gives the name "effective utility", because "the presence of the particular bit is a positive element in conducing to the man's welfare." But to utility in general, the physical meaning of Ricardo's and Smith, he gives the name "absolute utility", because

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1) Above ooo

is the capacity of rendering a service whether actually wanted not at the time and place.[1)]

Thus "absolute utility" is Smith's value in use and Ricardo's wealth, but it has no place in Clark's meaning ofwealth. On the other hand, "effective utility", which is Menger's Scarcity value, Ricardo's Value, and Marx's social use-value, is Clark's meaning of wealth, as it was Malthus' meaning.

Like Ricardo and Marx also, but unlike Malthus, Clark finds his scarcity values in the process of production. His capital goods are "productive goods,[2)] and what they produce is not use-values as such, but use-values in the limited amounts which make them scarcity values,

Clark's capital goods, like Marx's commodities, include all lands, all fixed and circulating capital, all goods in the hands of wholesalers and retailers up to the point where they are physically delivered over to the ultimate consumer, when they become consumers goods for Clark, "realized" values-in-use for Marx. They are, in short, the census estimate of natural wealth in terms of scarcity. For both Clark and Marx they are a "means to an end" and Clark's equivalent of wealth. "Wealth is always mediate...Capital goods are not wanted for their own sake, but for something else that is directly useful." The savage's fishing net is a capital good, because it "is wanted only for the sake of the consumer's wealth which it will help to produce. The end in view has all the while been fish."[3)] They are "passive capital goods", in the form of materials and circulating capital; active capital goods, known usually as fixed capital.[4)]

1) Clark, Essentials, 6,7.
2) Essentials, 29, et
3) Essentials, 16, 17
4) Essentials, 21

Land also is a capital good, since it "is a form of wealth ich produces other wealth." And, like Malthus, he defines wealth as the value of land. "Land is the original gift of nature to humanity, and wherever there are people enough to make the possession of a particular piece of it important, it becomes a form of wealth. It can be valueless only when population is sparse; and then an increase in the number of people dwelling on it gives to it clearly the attribute of specific importance. The land that is accessible to a growing population cannot long be superabundant." 1)

Thus wealth is scarcity of land. Its value is its scarcity value. Its use-value is valueless if abundant, and wealth is scarcity of use-value. Wealth is increased by the pressure of population -- the Malthusian idea of wealth, contrasted with the Ricardian idea.

So also with the products of labor. Here is the meaning of value of Ricardo and Marx. "It is necessary for man to exert himself in order to get the goods that he needs in the condition in which he can use them...Of course the supply of them is limited, since labor is so." 2) Ricardo and Marx would have personified it. "Value" of the goods is determined by the quantity of labor embodied in them, but this is the same as Clark's saying labor produces a limited supply of goods. The quantity of embodied labor is this limitation of supply. But such is the meaning of scarcity value.

With wealth defined as scarcity value, Clark's "labor", like Marx's "labor-power", also produces scarcity values by producing use-values in limited quantities. "Labor is wealth creating effort, and there is no labor that is successful in attaining its

1) Essentials, 9
2) Essentials, 9

urpose that does not help to bring into a serviceable condition something that can be identified as an economic good or a form of wealth." 1)

Since an economic good, or wealth has been defined as a limited supply relative to demand, so labor creates wealth by not creating too much of it. "Some effort, indeed, fails in what it attempts to do and therefore produces nothing. We may build a machine that will not work, or may make a product that no one wants; but labor that attains a rational purpose is always economically productive." 2)

Here the question arises, as it arose in the case of Marx, Does no one want the product because it is not a physical use-value -- a machine that will not work -- or because every one already has all the machines wanted that will work? Is labor useless because it does not produce a use-value, or because it does not produce a scarcity-value?

Clark means both, as did Marx. The distinction is between "productivity" and "economic productivity". Productively, labor produces physical qualities that will work, economically, labor doesnot produce too much of them. Productively, it produces use-values, economically, it produces scarcity-values.

Thus Marx and Clark, by the same physical analogies, arrive at similar results, but from opposite terms of the same scarcity ratio of total quantity wanted by society relative to total quantity available for society. Use-values in the sense of Ricardo's wealth, disappear from Clark's computation, as they disappear from that of Marx, but for opposite reasons of the same scarcity ratio. For

1) Essentials
2) Essentials, 10.

Clark they disappear through changes in the quantity wanted, but for Marx, they disappear through changes in the quantity available. It is the same scarcity ratio but the variable factor for Clark is limited demand, whereas for Marx it is the limited quantity produced.

Each considers the effective demand of consumers a limited demand, but for different reasons. Clark finds the limit in the diminishing final utilities of goods to consumers; Malthus had found it in the unwillingness of consumers to buy; Marx had found it in the inability of consumers to buy on account of exploitation by capitalists, and Ricardo had found it in the exploitation of capitalists by landlords and laborers.

Both Marx and Clark find their scarcity values in the process of production, and each for the similar reason that the producers have an eye on the demand of consumers and do not produce in greater quantities than the consumers will take at a price. Hence each considered production to be a production of scarcity-values and not Ricardo's use-values, thus using the term production in the double meaning, against which Ricardo protested, of producing value and producing wealth -- the double meaning of producing scarcity-value by withholding supply and producing use-value by augmenting supply. This is undoubtedly what happens, but the physical analogy concedals how it happens and who it is that causes it to happen.

Each constructed a capital fund of social scarcity value, to be measured by dollars, and a flow of social-labor-energy producing limited quantities of goods, also to be measured by dollars. Marx's "social-labor-power" is Clark's "permanent amount of working energy", whose total is constant, but the individuals are changing.

each case that which is constant is scarcity-value, and that ich changes is the flow of scarcity-values. Each looked upon these funds and flows as "concrete realities" and not as mental abstractions.

Where Ricardo started with the individuals and unlimited demand and reached a theory of relative scarcities on the markets determined by the relative scarcities of nature's resources, Menger started with the same individuals, but with limited demand, and reached his relative scarcities in view of the relative demands of consumers. But Marx and Clark started with society, the one following Ricardo, the other following Menger. Ricardo's relative scarcities disappeared, in the hands of Marx, in the average total scarcity of all goods produced in limited quantities by a great composite producer, society. And Menger's relative scarcities disappeared in the hands of Clark, in one grand composite capital fund limited by the diminishing wants of a composite consumer and the limited supplies furnished by a composite producer.

There is no particular objection to these figures of speech except that they cannot be used for research and testing out hypothesis. Modern economics has, indeed, something analogous to funds and flows, yet expressed in transactions, their repetition, duplication and expectation. They indicate a permanent number of jobs or positions into which individuals come and go, but they come, stay and go by repetition of transactions, and the interesting points are summarized as labor-turnover, such as hirings, firings, quits, lay-offs, absenteeism, etc. This may be pictured as an inflow and outflow of labor or commodities, but it is poetry, not economics. No particular use can be made of it for

derstanding what happens or for correcting or forecasting what ppens. Marx, indeed, built upon his physical analogy a proposed dictatorship of the proletariate, but when it came to the actual dictatorship they had to accomodate themselves more or less to the customary transactions that farmers, investors, borrowers and laborers were addicted to. Clark built up a harmonious economic system in which everybody gets exactly what he produces -- but what he produces is scarcity values. What each was picturing in terms of physics was a repetition, multiplication, variability, and expectation of billions of bargaining, managerial and judicial transactions which make up the economic process of going concerns.

(to follow chapter on Efficiency and Scarcity)

IV. Process

May 31, 1929.

IV. PROCESS

1. Working and Owning

The theories of the physical economists from Quesnay to Marx and MacLeod were formulated during the last half of the eighteenth century and the first half of the nineteenth century. The theories of the hedonic economists, from Goessen onwards, were formulated during the last half of the nineteenth century. Neither of these schools was influenced by the "Origin of Species," published in 1859, and hence had no evolutionary theory of the subject matter of their science. The historical school had overlapped, during the middle of the nineteenth century, and, in the words of Veblen, "attempted an account of developmental sequence, but they have followed the lines of pre-Darwinian speculations on development rather than lines which modern science would recognize as evolutionary. They have given a narrative survey of phenomena, not a genetic account of an unfolding process."[1]

It was this that led Veblen to ask, in 1898, "Why is Economics not an evolutionary science,"[2] and to set forth the criticisms for distinguishing between theories which work out logical conclusions from a limited number of assumptions and a science of life which works out a theory of historical process.

Veblen identified the marginal utility school with the classical school in that "neither can deal theoretically with phenomena of chan

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1 Veblen, Thorstein, The Place of Science in Modern Civilization, 72 (1919) essays originally published 1892 to 1913; The Theory of Business Enterprise (1904); The Instinct of Workmanship (1914); Vested Interests (1920); Absentee Ownership (19); cp. Homan, Paul T., Contemporary Economic Thought, 105 ff. (1928); Clague Ewan, Theory and Measurement of Physical Productivity (1929).

2 Place of Science, 56.

at the most only with rational adjustment to change which may be supposed to have supervened."[1] This identity of the two schools proceeds from the identity of two "postulates" which pervade their theories, the postulate of "animism" and the postulate of a "mechanical tendency towards equilibrium." The latter is the former despiritualized, yet each is purposeful. "Animism," in its eighteenth century form, is a beneficent purpose back of nature which guides phenomena towards human welfare, while the postulate of a "normal" tendency towards equilibrium is that of rendering to each class of producers a remuneration equivalent to what it produces, unless interfered with by man.

The first of these passes over into the second as a "constraining normality of a spiritual kind," in contrast with the "latter-day preconception of a non-spiritual sequence" which works without purpose or presuppositions of cause and effect. It is the survival of a "disintegrating" animism. It all goes back in a lineal descent to that primitive time when archaic man construed the facts of the environment in terms of personality as malignant or beneficent, and can be "traced in detail from primitive animism down through the elaborate discipline of faith and metaphysics, overruling providence, order of nature, natural rights, natural law, underlying principles. . . controlling principles, tendencies, verities, the invisible hand, natural wages, normal value" and so on. The animistic postulate became more and more attenuated, until in the hands of Cairnes, it disappeared entirely in a mechanical postulate, and economics became a truly "dismal " science, since it no longer had an invisible hand guiding it towards human welfare.[2]

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1 Place of Science, 232, 234.
2 Ibid., 62, 281, passim.

The Austrian group of hedonic theorists had, indeed, "struck out on a theory of process, but presently came to a full stop because the process about which they busied themselves was not, in their apprehension of it, a cumulative or unfolding sequence." It also ended in the tendency to an equilibrium. And this on account of the faulty concept of man, namely, "a passive and substantially inert and immutably given human nature." Man was conceived by them, not as an active force that does something, wherein the "activity is itself the substantial fact of the process" about which science is concerned, but merely as a chemical or physical substance passively falling into equilibrium with the other forces of physical nature. And so Veblen gaily pictured the hedonic man as "a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive, human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before. Spiritually, the hedonistic man is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him."[1]

Here, then, is the basis of the second postulate. The animistic doctrine of an unseen hand has disappeared, but in its place is a

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[1] Ibid., 73.

chanism operating according to its own laws in a normal way, such as the great mass of "disturbing causes," "frictions," inventions, institutions of government, property, money, credit, and, indeed, all the characteristic facts of capitalism "are set aside and allowed to have no force in shaping economic conduct."[1] These changing forces of the environment are treated as though they were stable and unchanging, like the human being himself, and the only changes that occur are those "static" changes by which individuals equalize marginal utilities with marginal costs.

This tendency to equilibrium may be accepted either in a fatalistic attitude which puts an end to all discussion, as was the case with Cairnes, or may be accepted in the "animistic" attitude which sees a divine purpose reconciling economics with justice, in that every person receives exactly the equivalent of what he produces, as was the case with Clark.[2] There is substantially no difference no difference, from Quesnay to Clark or from Smith to Cairnes. Each is dominated by a controlling principle which works toward an equilibrium of forces, the difference being that Quesnay and Clark see therein an ethical outcome agreeable to the moral order of the universe, while Cairnes and the dismal equilibrists see an economic outcome which man's notions of a moral order cannot override. In the one case, if not interfered with, the moral order reveals itself in the ethical tendency of remuneration to become equal to services rendered in the other the tendency to equilibrium is the natural equivalence of economics and equity to which the moral order must submit.

How, then, shall we substitute an evolutionary process for the physical postulate of tendency towards equilibrium? It is by getting

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1 Ibid., 244.
2 Ibid., 206, 245.

ay from the concepts both of commodities and of individuals, and by substituting the evolution of knowledge, science, the arts, habits and customs of producers. Thus machines, commodities, natural resources, even individuals, disappear as subject matter, for they are only applied knowledge and bundles of habit acquired in the application of that knowledge. Indeed, the physical things are only use values which disappear, are renewed and invented, but knowledge and habit endure and unfold through the ages by instruction, tradition, experience, experiment, investigation. This knowledge is technological, the "matter-of-fact knowledge of the physical behavior of materials with which men have to deal in the quest of a livelihood." "To say that minerals, plants and animals are useful - in other words, that they are economic goods - means that they have been brought within the sweep of the community's knowledge of ways and means."[1]

All of this is commonplace enough. Every economist know all about it. But why could they not construct an economic theory out of it? It was because they were pre-Darwinian and took the physical science of Newton, instead of the biological science of Darwin, as their standard of what a science should be. Veblen Darwinized economics by his two concepts, the "instinct of workmanship" and the "going concern."

His term "instinct of workmanship" hardly does justice to his meaning. It is, curiously enough, the biological equivalent of Marx's "social labor power." Marx's term included "manual, mental and managerial" labor of wage-earners, foremen, superintendents, technologists and even business men in their managerial activities. It was a concept of physical energy, evolving with man's power over

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[1] Ibid., 325 ff.

ure, as a kind of impersonal force revealing itself in commodities. Veblen's "instinct of workmanship" is a biological energy, including the same manual laborers, technologists, artists, scientists, foremen, superintendents, and even business men in so far as they are not making a pecuniary profit, but are revealing their activities in the usefulness of machines and commodities.

Like Marx, too, the physical machines and commodities are not capital. Capital is ownership. Ownership is sheer power to appropriate what the instinct of workmanship produces. But the instinct of workmanship is knowledge and habits of industry, not material things, but the power to create the usefulness of things. It is the "immaterial equipment of industry, the intangible assets of the community."[1] It is inherited and transmittable, but it also is teleogical, for it is "the conscious pursuit of an objective end which the instinct in question makes worth while."

For this reason he gives the name "tropism," or "tropismatic activity" for such animal or human behavior as is unreflective or nondeliberative, and reserves instinct for human volitions. Such instinct is "a matter of tradition out of the past, a legacy of habits of thought accumulated through the experience of past generations." It "falls into conventional lines, acquires the consistency of custom and prescription, and so takes on an institutional character and force."[2]

These accustomed ways of doing and thinking are "sanctioned by social convention and so become right and proper and give rise to principles of conduct. By use and wont they are incorporated into the current scheme of common sense." While the instincts are not so

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[1] Ibid., 330.
[2] Instinct of Workmanship, 5.

th hereditary as educated, they are subject to variation, selection and survival through competition and struggle, primarily as adaptations to meet the material requirements of life and the cultural changes of civilization.[1]

The instinct of workmanship runs through all other proclivities, for it is the sense of fitness respecting the ways and means for accomplishing any ultimate purpose. In the arts, "where the sense of beauty is the prime mover," the instinct of workmanship provides the technique; in religion it is the ritual; in courts of law it is procedure and legal technicalities; in industry it is the process of production and the organization of a force of employees. The business man, too, shows the instinct of workmanship in his manipulation of markets and of human needs for the purpose of obtaining a profit. "So that this instinct may, in some sense be said to be auxiliary to all the rest, to be concerned with the ways and means of life rather than with any one given ulterior end." "It involves holding to a purpose. It is concerned with "practical expedients, ways and means, devices and contrivances of efficiency and economy, proficiency, creative work and technological mastery of facts. It is a proclivity for taking pains."[2]

Veblen's second and complementary concept which converts physical capital into an evolutionary process is his concept of a going concern. It is, in fact, a technological "going plant," a turnover of materials, machines, buildings, operated and maintained by an organization of superintendents, experts, foremen and workers turning out use-values. Karl Marx had given his attention to the physical materials and equipment of "embodied labor;" Veblen gave attention t

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1 Ibid., 13.
2 Ibid., 31, 33.

organization of workmanship within the plant. Hence Marx expresses the concept in the passive and metaphorical terms of an "organic composition of capital," but Veblen expressed it in terms of a managerial process "under the foremanlike oversight and correlation of the work in respect of kind, speed and volume," a "function of the foreman's mastery of the technological situation at large and his facility in proportioning one process of industry to the requirements and effects of another."[1]

This is "efficiency," and Veblen parts with "modern scientists" who would reject such a word as efficiency because it is said to contain the metaphysical concept of "causation." Efficiency is, in truth, a concept of cause and effect, for it is the intentional control "exercised by the master-workman, engineer, superintendent," and it "determines how far the given material equipment is effectually to be rated as capital goods."[2] Thus physical capital becomes, not a quantity of things, but a changing process of usefulness directed by "prevalent habits of thought." The "physical properties of the materials are constant," and it is "the human agent that changes." Capital is not an accumulation of past products of stored-up labor - these are transitory and aimless - capital is a going concern of industrial knowledge and experience guided by the master-workman for the service of mankind. Capital is Henry Ford and his hundred thousand workers, and Ford's book, "My Life and Work," is Veblen's instinct of workmanship realized.

But Veblen and Ford had another instinct and another meaning of Capital. This instinct might have been derived from Adam Smith's "propensity to truck, barter and exchange one thing for another," were it not that Smith saw in it the invisible hand of beneficence, but Veblen saw in it the malignant hand that disrupts the technical

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[1] Place of Science, 345.
[2] Ibid., 345.

cess in order to obtain "something for nothing".[1] This "pecuniary instinct" is Property. Property is Capital, and just as Veblen's capitalist makes his pecuniary gain by the "right to abuse" rather than the "right of use," so Ford buys out the stockholders and gets rid of their legal claims for profits and interest.

Adam Smith's concept of property, according to Veblen, belonged to the regime of handicraft and petty trade, before the machine process ripened, when the workman was the master-workman producing and selling his product, and when the merchant made his profit by adapting himself to changes in demand and supply of commodities, over which he had no control. But modern business property is an investment, not in commodities as they pass between producer and consumer, but in the mechanical processes of industry itself,[2] Smith's concept of property went back to John Locke, who substituted a natural right of property and liberty, based on the worker's control over his own person and the products of his labor in place of the authority of a superior based on prowess, service and fealty, running back from secular authority to divine authority,[3] so that, in the time of Smith, economic life had become standardized "in terms of workmanship and price." Retaining, however, these ideas of natural right and liberty, modern business has abandoned John Locke's origin of property out of the creative efficiency of the workman and finds its basis in the capitalization of expected earning capacity. Property is not merely the ownership and liberty to dispose of what one produces; it is the present value of what is expected others will produce. Thus property is Capitalization, and Capitalization is Capital.

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1 Veblen, The Vested Interests, 100, and elsewhere.
2 Veblen, Business Enterprise, 22, 80.
3 Ibid., 74-80.

This is because the machine process has succeeded the handicraft process. The "machine process" is larger than the machine. It is procedure on the basis of a systematic knowledge of forces employed, and agricultural and animal industries are machine process. And it is larger than the single plant, since none of the processes are self-sufficing but the "whole concert of industrial operations is to be taken as a machine process." Hence there must be adjustments within the plant, adjustments between plants and between industries, measurements of materials and appliances, standardized sizes, shapes, grades, gauges, not only of commodities and services, but also of time place and circumstance. It is a world-wide "comprehensive, balanced, mechanical process," the instinct of workmanship rationalized.

So nicely is this process balanced that any disturbance at any point spreads quickly to other points and may bring down the entire process with idleness, waste and hardship. Here is where the business man comes in. "It is by business transactions that the balance of working relations between the several industrial units is maintained or restored, adjusted and readjusted, and it is on the same basis and by the same method that the affairs of each industrial unit are regulated." All of these relations are "always reducible to pecuniary" units, since the business man, as such, is interested not in the "plant" as an industrial equipment but in the plant as pecuniary "assets."[1] It is to him an "investment," and investment is a pecuniar transaction whose aim is pecuniary gain in terms of value and ownership. He makes his gains, not by workmanship which is serviceable to the community, but by business which is not serviceable.

The distinction occurs in two kinds of assets, "tangible" and "intangible," the former being "peculiarly serviceable capital goods

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1. Business Enterprise, 18.

latter being "immaterial items of wealth, immaterial facts owned, lued, and capitalized on an appraisement of the gain to be derived from their possession." These intangible assets arise from the fact that ownership of the community's physical equipment makes the capitalist the "de facto owner of the community's aggregate knowledge of ways and means," that is, owner of the community's "immaterial equipment" as found in the technological abilities of workmen. But ownership gives to the capitalist not only the right of use of this technological capacity of the workers, but also the "right of abuse and of neglect and inhibition."[1]

Thus the legally prohibited "restraint of trade" is not the only form of abuse - the characteristic and all prevailing abuse is that of making a pecuniary gain by "advised idleness of plant," by "charging what the traffic will bear," by "obstructive tactics designed to hinder the full efficiency of a business rival, "by freezing out" rival firms, by raising prices, "so that, under the regime of capital, the community is unable to turn its knowledge of ways and means to account for a livelihood except at such seasons and insofar as the course of prices affords a differential advantage to the owners of material equipment."

For, "disserviceability may be capitalized as readily as serviceability." Not to mention naval and military establishments for protecting trade, or investments in race tracks, saloons, etc., or wasteful and spurious goods which involve "a perverse use of the technological expedients used," there is also the characteristic capitalization of intangible assets known as "good-will" which is a name for the capitalization of differential business advantages, in-

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..uding not only the original "kindly sentiment of trust and esteem on the part of a customer," but the more modern meaning of special advantages inuring to a monopoly or a combination of business concerns. It is these differential advantages over the community and over rivals, created by power to withhold supply, that constitutes the bulk of intangible assets, and this attribute furnishes us with the distinction to be drawn between tangible and intangible assets. Although both tangible and intangible assets are valuable on account of their income-yielding capacity to the owner, yet the presumption is that the former are potentially serviceable to the community, representing "materially productive work," which furnishes use values, while intangible assets "in the aggregate, and on the average" are "presumably disserviceable to the community," since they furnish only money values to the owner.

The substantial difference lies in the fact that tangible assets are a capitalization of the technological proficiency of the community, that is, of the processes of production, whereas intangible assets are a capitalization of the adjustments or maladjustments, the differential control of supply, between industries and markets, that is of "expedients and processes of acquisition not productive of wealth, but affecting only its distribution." Hence the latter are pecuniary privileges of business arising only from control of supply and power to withhold supply if prices are not satisfactory, and are therefore exactly the opposite of productive efficiency of workers, which increases the supply.

Hence arises the distinction between "industrial" and "pecuniary employments.[1] The classical division of factors of production

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1 Ibid., 279 ff.

land, labor and capital, proved inadequate, and a fourth factor, the entrepreneur, was introduced as a peculiar kind of laborer with a peculiar kind of wage. At the same time the original premises of a providential order of nature remained, with its theorem of a natural or normal equilibrium which worked out an "equivalence between productive service and remuneration." Profits, therefore, became the just equivalent of enterprise, as rent, wages and interest had been the equivalent of land, labor and capital.

Afterwards, a peculiar class of undertakers, called speculators, came into view, not having any "interest in or connection with any given industrial enterprise or any industrial plant." A half century ago the business manager might have been construed as "an agent occupied with the superintendence of the mechanical processes. At that time the speculative function might have been considered inseparable from the industrial function, and therefore a distinction could be made between "legitimate" and "illegitimate" speculation, the former connected with "the successful operation of some concrete industrial plant," the latter furnishing no service to the community. But, in recent times, the connection has been severed, so that a complete line of business or pecuniary employments has been separated off from industrial or mechanical employments. Hence "the line falls not between legitimate and illegitimate pecuniary transactions, but between business and industry," that is, between power to withhold supply and power to increase supply.

Business activities are "lucrative without necessarily being serviceable to the community." They include the activites of speculators in securities, real estate agents, attorneys, brokers, bankers and financiers, who shade off "insensibly from that of the bona fide speculator who has no ulterior end of industrial efficiency to serve,

that of the captain of industry or entrepreneur as conventionally set forth in the economic manuals." Their characteristic is that "they are concerned primarily with the phenomena of value - with exchange or market values and with purchase and sale - and only indirectly and secondarily, if at all, with such mechanical processes." They are not concerned with production or consumption, but with distribution and exchange, that is, with the institutions of property, which is "not to be classed, in economic theory, as productive or industrial activity at all," since the function of private property is simply that of power to withhold supply.

Industry is, indeed, "closely conditioned by business," since the ownership of property means "the discretionary control of wealth. The business man decides what shall be produced and how much or little, but his object is not production or serviceability, but "vendibility." And he often gains as much or at least avoids a loss, by disrupting industry as by promoting it. In short, the gains of pecuniary employments arise from power to obstruct and withhold production vouchsafed by the institution of property, whereas the gains of industrial employments arise from increasing production vouchsafed by the instinct of workmanship.

It is these pecuniary gains that are defined as vested interests. "A vested interest is a marketable right to get something for nothing." Vested interests are "immaterial wealth," "intangible assets. They are the outgrowth of three main lines of business, namely, limitation of supply, obstruction of traffic, and meretricious publicity, all with a view to profitable sales. They are "devices of salesmanship, not of workmanship." They are not, however, dishonest - "they are conducted strictly within the lines of commercial honesty." They are simply unearned incomes allowed by law. For this reason

They are named "free income," in that they are obtained by their recipients out of the total mechanical production of the community, through power to withhold supply and opportunity, but without rendering an equivalent service through increasing the supplies of commodities and opportunities of employment.

What, then, are the objects with which pecuniary employments are occupied? The early physical economists, Quesnay, Ricardo and Marx, eliminated money entirely or reduced it to a commodity, and represented rent, profits and wages as quantities of commodities exchanged in a barter economy, with money as a mere unit of account not different from other weights and measures. But Veblen's modern business man is occupied solely with obtaining money itself, or rather with obtaining various legal instruments such as stocks, bonds, and checking accounts at the bank, which have the capacity of commanding commodities and labor in exchange. These legal instruments are evidences of ownership and not products of workmanship. They have no necessary connection with commodities, in fact are not commodities at all, but are legal instruments for controlling the supply of commodities. The old-time workman or merchant brought actual commodities, previously produced, upon the market. But these modern intangible properties, taken as a whole, are titles or claims to something which has not yet been produced, namely, an expected net earning capacity, that is, differential advantages over and above expected outgo for wages, determined by the process of keeping up prices by restricting supply, and keeping down wages by restricting the demand and increasing the supply of labor. On this account they are claims to differential marketing advantages, which, when distributed among the claimants take the form of profits, interest and rent. They have no necessary basis in the mechanical processes of industry, and depend solely on rights of

ership and resulting control of supply.

In this respect it will be seen, Veblen followed historic lines and made the same distinction which the Supreme Court finally made in the Adams Express Company case in 1896,[1] and he has enlarged, as did the court, the definition of both property and capital, from that of corporeal property to that of expected earning capacity. It is the buying and selling of this earning capacity that constitutes "traffic in vendible capital."[2] This vendible capital, as we saw in the Express Company case, has no definite relation to the physical capital. It is, according to Veblen, a "fund of money values," and "bears but a remote and fluctuating relation to the industrial equipment. . . of the old-fashioned concept of industrial capital." The old basis of capitalization was "the cost of material equipment owned by any given concern. . . The basis is now no longer given by the cost of material equipment owned, but by the earning capacity of the corporation as a going concern." In other words, "the nucleus of capitalization is not the cost of the plant, but the concern's goodwill, so called."

And the meaning of "good-will" has been enlarged to meet the requirements of modern business methods. "Various items, of very diverse character, are to be included under the head of good-will; but the items included have this much in common that they are 'immaterial wealth,' 'intangible assets;' which, it may parenthetically be remarked, signifies among other things that these assets are not serviceable to the community, but only to their owners." And he proceeds to itemize the constituents of good-will in its modern application. "Goodwill. . . comprises such things as established cus-

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1 Commons, Legal Foundations of Capitalism, 172, 200.
2 Place of Science, 380.

nary business relations, reputation for upright dealing, franchises & privileges, trade-marks, brands, patent rights, copyrights, or exclusive use of special processes guarded by law or by secrecy, exclusive control of particular sources of materials. All these items give a differential advantage to their owners, but they are of no aggregate advantage to the community. They are wealth to the individuals concerned - differential wealth; but they make no part of the wealth of nations."[1]

If then, vendible, or immaterial, capital is identical with good-will, and goodwill is but titles of ownership, what are the physical things that are owned? There must be a substantial basis of ownership. The primitive master-workman owned his building, materials, tools, and products, and the modern business man owns his physical plant, but the latter is not concerned with these technological properties. He owns "vandible capital," which, however, must also refer to something tangible which can be held and owned like a house, horse, or machine. Hence, Veblen's physical concept of property, which led Fisher to assert that the business man owns his customers,[2] leads Veblen to assert that the business man owns his laborers.[3] Intangible capital, or goodwill, is like physical capital, or commodities, the only difference being that the owner of intangible capital owns his laborers, while the owner of physical capital owns buildings and tools. By owning his laborers, he owns the producing organization inseparable from the going plant, to which that producing organization is attached. This makes possible a quantitative

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1 Business Enterprise, 139-140.
2 Fisher, Capital and Income, 29.
3 Place of Science, 346.

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ference in that the traffic is vendible, that is, intangible cap-
l, and is conducted on a much larger scale than traffic in physica
products and yields greater profits.[1] We have seen the same figure
of speech in the court's opinion in the Hitchman case[2] where the term
"goodwill" was so defined as to give the employer a "right" of owner-
ship in the services of his employes as against even the persuasion
of a labor union, and Veblen's concept is not far removed from the
court's in that case.

How is it that these mere rights of ownership or "vendible capital," have an earning capacity and therefore have a value apart from the value given to objects by the mechanical processes of workmanship? Ownership, in its modern form of "big business," has but one source of value, the power to withhold physical goods from producers and consumers. While workmanship increases the supply of goods, ownership withholds the supply. It is a power to stop industry at will, and this power compels producers and consumers to come to terms with the owners and to pay to them a price for the mere permission to use lands, machinery and materials. This permission to use has enormous value because it can be refused at will, and nothing can be done without it. Industry can be stopped and the workers dismissed at any moment if the price for permission to use is not forthcoming.

Hence these mere permits for use can be bought and sold, borrowed and leased, like any physical object. They take on various names according to the purpose in hand. From the standpoint of the credit system they are stocks, bonds, debentures, bank deposits, whic constitute a fund of claims to the expected earning capacity of these permits to use, known as the "loan fund." But from the standpoint of

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1 Business Enterprise, 166; Place of Science 380 ff.
2 Commons, Legal Foundations, 296.

operations of industry itself, they are the differential advantages over and above what is paid as wages, the most inclusive of which is that intangible property known as "goodwill."

It will be seen here that Veblen reproduces the same explanation of differential advantages that Karl Marx had introduced in explaining Ricardo's law of rent, but has extended it to all differential advantages and all net incomes. With Ricardo ground rent was due to the greater productiveness of labor on better land, but with Marx ground rent was due to private property in land. In either case the owner did not produce anything corresponding to the rent received. Rent, according to Ricardo, was a "transfer" of wealth, not a "creation of wealth." In this respect Ricardo, Marx and Veblen agreed. But where Ricardo explained the unearned increment of land by the greater productiveness of labor employed on the better land, Marx and Veblen explained it by the greater power of the private owner to stop production, since he owned the instrument of labor's greater productiveness. Marx reached his conclusion by the Hegelian process of contrasting common property with private property. If all land were held in common then differential productiveness would not yield a rent to any individual. The total product would then be averaged just as a farmer averages the total product of good and poor land within his farm. Marx likewise extended his averaging process to the total capital of the country and thereby reduced profits, rent and interest to an average rate of profit, and likewise extended it to the total social-labor-power of the nation and reduced skilled labor to multiples of unskilled labor. Capital became, not individual capitalists, but aliquot parts of the nation's total power of ownership, and labor became, not individual laborers, but aliquot parts of the nation's total power of production.

Veblen, of course, on the other hand did not commit the fallacy of averages. He extended the principle of differential advantages from Ricardo's rent to include also the entire range of profits, interest and rent, whether derived from goodwill, patents, franchises, land, or any title of ownership. Where Marx had made capital the average power of acquisition , Veblen made it a host of differential powers of acquisition. In all cases it is, however, exactly like the Ricardian rent of land, namely, different degrees of power to obtain "something for nothing," or, as Ricardo would have said, different degrees of power to "transfer" wealth without "creating" wealth.

2. Managerial Transactions

Thus Veblen exposed the dualism of technology and property inherent in the classical and hedonic theories, previously attacked by Proudhon and Marx. In one direction it leads to managerial transactions, in the other to bargaining transactions.

During the same years when Veblen was developing his theory of efficiency Frederick W. Taylor, the machinist, was developing his time and motion studies.[1] Taylor, like Adam Smith, had one "postulate," the Harmony of Interest to be attained by greatly increasing the productivity of labor. He ran against the workers' doctrine of restriction of output, not in its organized form of unionism, but in its instinctive form of dread of cuts in piece rates and dread of unemployment. He saw the conflicting customs of workers and employers

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Taylor, Frederick W., Fundamentsl of Scientific Management (19); Life of Taylor, 2 vols. (19); Hoxie, Scientific Management (19); Publications of Taylor Society; Clague, Ewan, Theory and Measurement of Physical Productivity. The following is mainly an abstract of Clague's dissertation on Taylor.

e use of force instead of persuasion, of bargaining instead of ficiency, and the gap between what the men actually turned out and what they comfortably could turn out. He saw the upper limit of fatigue and clumsy, wasteful methods of work. His chief interest lay in the physiological problem of fatigue and the engineering problem of maximum output. Previous writers had not got beyond a broad concept of productivity. He had to find something that defined the problem narrowly enough to be amenable to measurement and universally applicable.

These limits were found in the engineering problem of improving human capacity and in the economic problem of inducing greater willingness. The former, for him, was not different at all from any problem of mechanical engineering - the human being is, not a commodity, but a machine. But the economic problem was, in the words of Clague, that of "selling" scientific management to the workers. "It should be perfectly clear," he said, "that the greatest prosperity for the workman, coupled with the greatest prosperity for the employer, can be brought about only when the work of the establishment is done with the smallest combined expenditure of human effort, plus nature's resources, plus the cost for the use of capital in the shape of machines buildings, etc. . . The general adoption of scientific management would readily in the future double the productivity of the average man engaged in industrial work. Think of the increase, both in necessities and luxuries of life, which becomes available for the whole country, of the possibility of shortening hours of labor when this is desirable, and of the increased opportunities for education, culture and recreation which this implies. Scientific management will mean. . . the elimination of almost all causes of industrial dispute. What constitutes a fair day's work will be a question for

entific investigation, instead of a subject to be haggled and bar-gained over. . . We do not bargain whether the sun rises in the east, we measure it."[1]

Thus economics is reduced to the engineering problem of man's relation to nature. Taylor, like Marx and Veblen, carefully excludes all so-called productive factors which confused the physical economists' notion of productivity, such as land, capital, machines. These are only tools. Productivity is a relation between output and labor, including management and the installation of the plant. It is the rate of output per man-hour. This is efficiency.

Increasing efficiency creates a surplus without increasing fatigue. The capitalist should share it with the laborer, but the latter is not entitled to it if he gets the going rate of wages. It is not a question of rights, it is a problem of management.

We turn to Henry S. Dennison, the employer-owner-manager, for the next step in the transition from Marx's metaphysical social-labor-power, Veblen's biological instinct of workmanship, and Taylor's mechanization of labor, to the social problem of managerial transactions. Dennison, like Ford, had bought off the claims of stockholders, and had gone further by making the election of directors and managers a function of the upper group of "worker-owners" instead of the "investor-manager."[1] Management is not only the engineering science of Taylor, nor only the workmanship and authority of Veblen and Ford, it is a volitional process, a transaction between foreman and operative, where neither the worker chooses nor the foreman chooses, but the choices are "joint choices." Dennison's description of a managerial transaction is outlined as follows:

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1. Taylor, Fundamentals, 11, 142.
2. Dennison, Henry S. "Who Can Hire Management?" Bulletin of the Taylor Society, April 1924. Cf. Commons, Industrial Government (1920).

Job Analysis of Management

Understanding

1. Observing (Watching the operation, supervision includes selecting what to observe and method of recording, mental or physical.)

2. Evaluating (Interpreting the observed facts; relating them to other facts and to policies; determining relative significance.)

3. Conceiving (Imagining possibilities and goals. Includes correction of complaints and faults disclosed by 1 and 2.)

4. Analyzing (Analyzing goal and possibilities and relating observed and evaluated facts thereto.)

5. Contriving (Determining methods, means, incentives operatives.)

Directing (Giving orders - in absolute strictness not managing but operating.)

6. Teaching (Establishing the necessary understanding of goals, means, methods and incentives.)

7. Inducing (Inspiring - "instructing the desires;" the emotional partner to teaching.)

3. Bargaining Transactions

Managerial transactions arise from the relations of a legal superior to a legal inferior. The psychological relation, at law, is command and obedience. But bargaining transactions arise from the relations of those who are legally equal. The psychological relation is persuasion or coercion. Just as Veblen's instinct of workmanship resolves into Dennison's managerial transactions of a going plant, so Veblen's pecuniary acquisitiveness resolves into the bargaining transactions of a going business. It requires the two to construct the concept of a going concern, each acting on the other - a producing organization, a buying and selling organization.

But the instinct of workmanship, we must observe, is also an instinct of acquisitiveness. The respectable line of disturbances

sated by Veblen's technological workers, such as strikes, boycotts, bor turnover and bargaining in general, suggests the idea that the same acquisitive instincts belong to both workmen and business men. His antithesis of efficiency and bargaining holds true - efficiency is the increase of supply, bargaining is the withholding of supply. Yet the instinct of workmanship does not go on producing goods regardless of prices or wages. The power to withhold supply unless the terms are satisfactory, is indeed Veblen's pecuniary motive and his rights of property. It also is an institutional, historical fact. It has also its evolving customs. The foreman does not find the materials and labor ready at hand, furnished by nature. He finds them held by owners. Before he can use them he must obtain a transfer of ownership The difference between capitalists and workmen is not that the former have the pecuniary instinct and the latter do not, but that the power to withhold, vouchsafed by the laws and customs of property, differs in degree according to persons, times, concerted action and other circumstances.

The historical explanation of Veblen's cynical antithesis of business and industry is in the failure to trace out the evolution of business customs under the decisions of courts, as he had traced the technological customs. Such an investigation reveals the evolution of his "intangible property" which has consisted in making the distinction, not allowed by Veblen, between goodwill and privilege, goodwill being the reasonable exercise of the power to withhold, and privilege being the unreasonable exercise of that power. It is only in the analysis of a bargaining transaction that the economic foundation for this evolution can be found. Psychologically it is the distinction between persuasion and coercion; legally the distinction or rights, duties, liberties and exposures; economically the three

ferences between free competition and fair competition, between al opportunity and discrimination, between reasonable and unreasonable price. These psychological, legal and economic aspects are inseparable, as may be seen from the formula of a bargaining transaction (Chapter on Willingness), derived from the economist's concept of a market and the jurist's concept of legal relations.[1] This is the main problem of the following chapters.

4. Flow of Time and Lapse of Time

The distinction between managerial and bargaining transactions is the distinction between efficiency and scarcity. The evolutionary fact, common to both, is the institution of property, developing out of conquest and custom into law. Management ranges from slavery, serfdom, peonage, master and servant, to foreman and worker; bargaining from barter and money to credit, from individual to collective bargaining and stabilization. But there is another distinction between the two, the concept of Time.

It is the outstanding defect of physical theories from Quesnay, Ricardo, Marx and MacLeod to Veblen, that they could not handle the distinction between a flow of time and a lapse of time. A "flow" is a moving point of time, without measurable dimensions, between the incoming future and the outgoing past. But a lapse of time is an interval between two points of time. The distinction underlies the difference between process and valuing, between managing and bargaining, efficiency and scarcity, profits and interest, risk and waiting, intangible property and incorporeal property.

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1 Commons, Legal Foundations, 65 ff.

None of the physical sciences requires this distinction between flow and lapse of time, because none of them deals with future time. Time, for economics, as a volitional science, is solely future time. But the flow of time, for economic theory is not only an expected flow of time, it is also an expected interval between a present point of time and a future point of time.

Veblen, in his truly scientific advance from theories of equilibrium to a theory of process, was, for that very reason, unable to go further and distinguish the truly human process from the physical process. His physical postulates could not possibly distinguish an expected flow of time from an expected lapse of time. This misconception of Time was, with him, as we shall see also with MacLeod and all the physical economists, the fundamental fallacy from which all fallacies flow.

His "intangible property" does, indeed, look to future earning capacity, and it is properly named intangible, but that earning capacity is solely an expected repetition of business transactions along a flow of time, not an expected postponement of income during a lapse of time. This, we shall see, is exactly the difference between intangible and incorporeal property. Incorporeal property is waiting until a debt is paid; intangible property is the expectation that profits will be obtained. Both are, indeed, "vendible capital," and both profit and interest are inextricably interwoven in each, but they are the difference between an expected repetition of transactions and an expected waiting for transactions.

The difference is doubtless subtle and its explanation is difficult for those who think in terms of modern physical science, or in terms of legal negotiability. The way in which Veblen rejected the distinction is seen in his double meaning of "lapse of time" and in

contrast of "vendible products" with "vendible capital." Products tangibles, and capital, or intangible goodwill and debts, are each bought and sold, and the gains from buying and selling are profit. The gains, he says, may in both cases "emerge under the form of a per cent per time-unit; that is to say, as a function of the lapse of time." "Yet business transactions themselves are not a matter of the lapse of Time. Time is not of the essence of the case. The magnitude of a pecuniary transaction is not a function of the time consumed in concluding it, nor are the gains that accrue from the transaction."[1]

True enough. The terms of a selling-buying transaction are agreed upon at a point of time, when the minds meet, but, if an interval of time is agreed upon between delivery and payment, then Time <u>is</u> of the essence of the case. An increment of profit or loss occurs over a flow of time, and a succession of increments is a flow of time. Hence an interval of time is not of the essence of profit. But if the product is bought now and sold 30 days from now the interval of time is of the essence of interest.

The interval appears, indeed, both as risk and as waiting, and each has an effect on present valuation. But Veblen eliminates the waiting and attends only to the risking. "The modicum of truth," he says, in Böhm-Bawerk's proposition that "present goods are preferred to future goods, . . . would appear to be better expressed in the formula 'prospective security is preferred to prospective risk;' . . . . whereas the dictum that 'present goods are preferred to future goods' must, on reflection commend itself as substantially false. . . . Even for the individual's own advantage 'present goods are preferred

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1. Place of Science, 379.

'ure goods' only where and insofar as property rights are secure, . . . on only for future use. . . It is 'present wealth,' not 'present goods,' that is the object of desire; and present wealth is desired mainly for its prospective advantage."[1]

By "present wealth" Veblen means present value of present property rights. But this present value has two dimensions, expected risk and expected postponement. Evidently a distinction is needed in the double meaning of Veblen's "lapse of time," corresponding to the difference between expected repetition, including variability or risk, and expected postponement of goods or payment. Veblen furnished indeed a notable contribution to economic theory when he substituted "change" for "equilibrium." He thereby made Time an essential fact of economics. But he could not see the difference between change and waiting, which is the difference between a moving point of time in the ever-present, when change occurs, and an interval between a present point and a future point of time, when waiting occurs. The first may be named a flow, the second a lapse of time. The two go together, and the failure to recognize each in its proper functional effect on the other is the failure of physics to solve the problems of economics.

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1 Instinct of Workmanship, 46, 47n.

CHAPTER IX

FUTURITY

I Exchange, Marketing, Bargaining

II Corporeal, Incorporeal, Intangible Property

III Negotiability

IV Collective Power

V Duties of Avoidance and Forbearance

VI Right, Value, Power

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CHAPTER IX.

FUTURITY.

1. Exchange, Marketing, Bargaining.

Henry Dunning MacLeod, in 1856, was the first to separate the lagal instruments, which constitute the credit system, from the physical commodities of Smith, Ricardo and Marx.[1] Yet he treated them as though they also were physical commodities, manufactured by debtors for the sake of profit, as gold and silver are produced by labor for the sake of profits and wages. This defect was pointed out by Carl Knies in 1876,[2] and the criticism by Knies amounts to a change from credit as a commodity to credit as a transaction. MacLeod had said that credit is not a "transfer" nor an "operation", but is a commodity.[3] His "credit" was a debt, created independently by a debtor for his own profit, in the form of a promise to deliver money, or commodity, or service, at a future time. And this credit, under the economic law of supply and demand and the legal law of negotiable instruments, became itself a commodity which could be used in exchange for other commodities. But Knies defined credit as an "exchange", wherein the performance by the other person, the Debtor, occurs after a lapse of time.

Thus the physical analogy of exchange as a flow of physical goods, extended to a flow of incorporeal goods, which dominated the physical economists from Quesnay to Marx and MacLeod

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1. MacLeod, H.D., Theory and Practice of Banking 1856, new impressions 1923. Elements of Economics, 1858, edition of 1881 Economics for Beginners, 6th impression 1900. The Condensed statements in the latter give a convenient but inadequate idea of his system.
2. Knies, Carl, Der Kredit, 1:63 ff (1876)
3. Elements 1: 103.

was changed by Knies so as to furnish the basis for a concept of credit as the volitional repetition of commodity and credit transactions.

Yet a transaction differs from Knies' exchange as the whole differs from one of its parts. In a transaction the parties take into account all immediately expected and remotely expected circumstances, and then, with these in view, they perform, or give orders for others to perform, the act of exchange as a physical act of delivery of commodities, toward which the transactions have been directed. Yet, byt describing credit as an exchange with a time interval, instead of an incorporeal commodity created independently of the exchange, Knies performed the service of laying the foundation for the economics of credit transactions in place of an economics of physical commodities.

This concept of credit as an exchange instead of a commodity, also revealed the source of MacLeod's fallacy in counting the same thing twice, once as corporeal property and once as incorporeal property. The credit side of the transaction said MacLodd, is "in existence now", in the form of a promise by a debtor, owned and negotiable by the creditor on the money market, but the debit side of the transaction does not come into existence until the future date when the performance is due and the State is called in, if necessary, to enforce it.[1]

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1. Elements 1:

Herein MacLeod failed to extend the principle of futurity to the debtor side of the transaction,[2] and it is this counting of the future once that explains his counting of the commodity twice. The distinction is partly between a present expectation and the future thing expected, and partly between the legal expectation of right and duty and the economic expectation or credit and debt.

The creditor's right is his present expectation, and the thing expected is his right of action, as a plaintiff in a court of law. The debtor's duty is also his present expectation, but the thing expected is the compulsion as defendent by the court and sheriff if he defaults in his promised payment. Both the right and the duty exist now, but they exist as expectations, and the thing expected is the collective action of society through its officials.

The foregoing applies to the Behavior of the parties. The same is true also of the economic quantities signified by the word "credit". McLeod identifies credit with "right", and the correlative term "debt" he identifies with "duty". Yet they are not identical, for the one set of terms applies to behavior, the other to economic quantities, and they are thus the correlatives of law, which governs behavior, and economics which explains the quantities of goods resulting from the behavior. A credit is an expected economic quantity consisting of the two dimensions of value, the quantity of

2. Bohn-Bawerk afterwards failed to extend futurity to the producers side as well as the consumers side of man's relation to nature.

commodity and the price per unit. The present value of this future value appears upon the balance sheet of the creditor as his "assets". But it is the identical economic quantity which appears upon the debtor's balance-sheet as his "liabilities". The debtor's debt is in existence now just as much as the creditor's credit, and both exist now merely as expectations, the one as expectation of a future outgo from the debtor, whose present mental, legal and economic existence is his "liability"; the other as the identical expectation of a future income for the creditor, whose present existence is his "asset." Thus, in a credit transaction, both sides come into existence at the same time, but they come, not as commodities, but as a two-sided expectation corresponding to the correlative of rights and duties, one side of which enlarges the creditor's assets and rights to the same extent that the other side enlarges the debtor's liabilities and duties.

Thus MacLeod's curious blunder of counting the same thing twice arose from his failure to count futurity twice. The duty and debt of the debtor exactly nullify the right and credit of the creditor, and thus leave but one commodity, the physical commodity.

In this respect, however, MacLeod was akin to the physical economists who conceived the subject matter of economics to be the exchnage value of commodities, including both gold and silver money and promises to pay, as commodities. "Modern economists since Smith" says MacLeod, "also include Bank Notes, Bills of Exchange, etc., which are merely Rights of Action, or

Credits, or Debts, under the term Circulating Capital." And Bohm-Bawerk has rightly said that MacLeod's theory was the legitimate but disowned child of the dominant theories of the time.(1) Bohm-Bawerk carries his criticism to the point of showing that economists have counted four independent objects out of a single phsycial object - fresh drinking water, for example. First is the physical thing, the water. Second is its inherent objective quality, usefulness or utility. Third is its useful service to man. Fourth is the right to the water.(2)

The reason why the economists did not count the same thing twice, once as the thing and once as the right to the thing, was because they had already, as a matter of custom, incorporated property rights in their meaning of a phsycial commodity, not realizing that thereby they had added to the meaning of the physical thing the meanings of scarcity and futurity. They then personified scarcity as Labor-pain or labor-power, whereas the unpersonified scarcity is property rights. This personification prevented them from having a place for the futurity aspect of property rights, so that when it came to the subject of incorporeal property, where futurity was wholly separated from existing physical commodities, they had no place for credit, a special case of futurity, within their theories of value. John Stuart Mill's admirable chapter on Credit was completely divorced from the theoretical foundations of his system, and credit was treated as merely an extraneous

1. Bohm-Bawerk, Rechte und Verhaltnisse, 6, MacLeod's name is not even mentioned in Palgrave's Dictionary of Political Economy.
2. Bohm-Bawerk, ibid., p. 000

matter of speculation and psychology, foreign to the real constituents of value which he found in labor-power or labor pain. Credit, for him, was the issuing of promises to pay metallic money, and was therefore dismissed from a theory that found the real value of money in the labor-cost of its production. In this he typified the other physical economists.

But MacLeod, by shifting entirely from both labor and the physical products of labor over to the exchange-value of rights of ownership as the subject-matter of economics, shifted thereby both from physical money to the legal tender quality of money as a representative of debts owing in the future, rather than a metallic product from the past, and from all other physical things coming out of the past to all the expectations of selling, buying, borrowing, lending, hiring, firing and paying debts. These expectations of physical commodities to be furnished by other persons, and not the commodities now existing themselves, became, for him, the subject matter of economics, and these expectations were simply legal rights and their economic equivalent, credit, made negotiable by law. They were expectations of what other people would do for self in transfering to self the ownership of physical goods - metallic money in the payment of debts and other commodities in the expected transactions of buying and selling.

"Value" he says, "in its true and original sense is a Desire of the Mind: it means Esteem, or Estimation" ... . But such value is not an Economic phenomenon. To bring value into

Economics it must be manifested in some tangible form: a person must manifest his desire, demand or value for something else, by giving something in exchange for it to acquire possession of it. But... it is evident that for an exchange to take place requires the concurrence of two minds...There must be the Reciprocal Desire, or Demand of Two persons, each for the product of the other. ... For every phenomenon of value there must be two demandsand two quantities...the true origin and cause of value is Reciprocal Demand. ...Hence it is clear that value is a ratio, or an equation: like distance or an equation, it necessarily requires two objects. ... A single object cannot have value. ... It is absurd to speak o of Absolute or Intrinsic Value... . The value of a workman's labor is his wages... . The value of an Incorporeal right is the Thing Promised which may be demanded... Adam Smith "is the principal author of the confusion in this subject in modern times. ...He begins by defining the value of a thing to be the thing it will exchange for: he then suddenly changes his idea of value to the Quantity of Labor expended upon obtaining the thing itself. Thus, the quantity of Labor necessary to produce it, came to be considered as the value of a thing, and then value came to be called Intrinsic. ...Over and over again, it is repeated in economical treatises that Money has intrinsic value, but that a Bank note or Bill of Exchange is only the Representative of Value! Money, no doubt, is the produce of Labor: but Smith himself says that if Money would exchange for nothing it would have no value: So that after all, it comes back to Exchangeability as the real essence of Value."(1)

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1. Banking, 1:103,104.

His curious blunders, which indicates his transitional position to a complete doctrine of futurity, was the failure, just mentioned, to count futurity on the debt and duty side, as well as on the credit and right side, of the same transaction. This made it possible for him to treat all rights as commodities subject to the scarcity principle of supply, demand and price, whether these rights be the rights to things already in existence and owned, (corporeal property) or rights to things not yet in existence or not yet owned (incorporeal property). The economists escaped this blunder, although, as seen by Bohm-Bawerk, it was implied in their concepts, by assuming, but not counting rights at all, and therefore having no place in their system for credit.

This curious blunder of MacLeod is facilitated by the evident fact that there are two markets, a commodity market where rights to physical goods already in existence (corporeal property) are bought and sold, and a money market where rights to future physical goods not yet in existence or possession (incorporeal property) are bought and sold. A commodity market is a produce exchange, a wholesale or retail establishment, or any other buying and selling of physical objects. The money market is either an investment market such as a stock exchange where long time expectations are bought and sold, or a bank credit market, such as a commercial bank where short-time promises of business men to pay money are exchanged for demand promises of bankers to pay money, the latter promises constituting the "money" of modern times.

Both of these kinds of markets are based on the legal attribute of negotiability, which is the legal equivalent of exchange and exchange value in economics, and therefore both may be unthinkingly treated, as did MacLeod and all business men and bankers to this day, as two of the many varieties of commodity markets. In the money market, "money" which however is only a bank promise to pay on demand, is bought and sold in exchange for business promises to pay money at a future date. This "negotiability" was invented by the courts (was invented by the courts,) following the customs of primitive business in the case of physical commodities, by their creation of the primitive "market ouvert" where good title to commodities could be acquired by buyers, that is, a title freed from any rights of action against the buyers. This legal process was already completed long before modern economics arose, and therefore negotiability of physical commodities was looked upon as one of the "natural rights" assumed by lawyers and economists. MacLeod was the first on account of his legal training, to realize that this negotiability, in law, was the foundation of economic science, and that it was only in recent times that the principle had been extended to promises and other expectations, where the physical objects dealt with on the market ouvert were not yet in existence or available. In fact, his great work of research had been upon the history of negotiable instruments in the laws of Rome and England.(1) This extension of negotiability he made the focus

1. See his exhaustive summary of cases in his History and Theory of Banking.

not only of his theory of exchange-value, but of all the moving forces of modern economic life. "If it were asked", he said, "what discovery has most deeply affected the fortunes of the human race, it might probably be said with truth - the discovery that a Debt is a saleable commodity."(1)

Negotiability, to MacLeod, was therefore the connecting link between economics and law, for it is negotiability, or, in the terminology of Hohfeld, "power" to change the proprietary status of individuals by transfering legal control over objects, whether physical objects on the commodity markets or debts on the money market, that makes possible, and indeed, is identical with, the exchangeability and exchange-value of the economists.

It is evident, however, when looked at from the standpoint of transactions, that neither can rights of property be eliminated as did the economists, for MacLeod was right in holding that it is not commodities but is the titles to commodities that are exchanged: nor are these two markets, the commodity markets and the credit market, to be united under the one concept of mere negotiability and exchange value, as did MacLeod, but they are to be united under the concept of the present and future of the same market. One is the market for MacLeod's corporeal property, such as a produce exchange, where ownership or legal control of physical goods is exchanged for promises to pay legal tender at a specified date in the future. The other is MacLeod's market for negotiable instruments, where

1. MacLeod, Banking, I:200. His italics.

the ownership of these same promises to pay legal tender in the specified future are bought by a commercial bank in exchange for its promises to pay legal tender on demand, which is the unspecified future. Negotiability is the common fact of both markets, but it is the negotiability of commodities and the negotiability of expectation.

Take, for example, a trade acceptance as the type to which may be reduced all commodities and credit transactions on the two markets. The expected repetition of similar transactions constitutes a market. A seller of 1000 tons of rolled steel at $20.00 per ton draws at 30 days on the buyer who accepts at $20,000 payable in thirty days. Then the two-name paper is discounted by a commercial bank at a going rate of discount, yielding, say, $19,900, if the going rate is 6% per year. This discount is, first, a present value of a future amount of money promised by the buyer and, secondly, it is the deposit by the seller payable on demand by the bank and employed as money by the seller of the rolled steel.

Evidently, therefore, even the commodity market is also a credit market, for the commodity market is a market where legal promises are created and accepted by business men, and the buyer who makes the promise is a "manufacturer of credit", as much as is MacLeod's commercial banker, who "manufactures money". On the commodity market, however, the buyer of the commodity creates a debt with a specified date of payment. The commodity exists <u>now</u> but the debt and duty of payment will not exist until 30 days have passed . Thus on the commodity market occurs the sale of a present commodity for a future commodity, the latter being future

"money" not yet in existence or available, and the future date being specified in the promise. But on the money market at a commercial bank occurs the sale, by the same seller of the commodit of the identical specified promise, in exchange, this time, for another future commodity but without specified date. This other future commodity is a bank deposit, which is made as nearly negotiable as possible as the meatllic money itself, and is therefore named by MacLeod a "commodity", and the banker who makes the promise is a "manufacturer of credit."

And the volume of demand deposits, on the liability side of the bankers's books, moves along with the volume of loans and discounts, on the assets side of the bankers' books, each reflecting the quantities and prices of commodities sold on the commodity markets. They are not two markets - they are the present and the future of all markets, with the banker as the powerful intermediary. Instead of a process of "manufacture" and "production" of commodities which MacLeod brought over by analogy from the physical economists, we have a process of changing the ownership both of commodities and the expectations of commodities in the immediate and remote future. This is none other than MacLeod's lasting contribution to the scarcity and futurity discussions involved in the theory of transactions.

Thus, instead of two commodities and two markets rather should we say that we have, in the foregoing illustration, two sides of the same transaction, the present commodity exchanged ~~for present money~~ by way of the participation of the banker in

for a promise to pay future money, and the future money exchanged for present money by way of the participation of the banker in buying the money-debt, the future $20,000, and selling a present money-debt $19,000. It is the same transaction in two aspects, and the banker participates both on the commodity side and the money side. For the sale on credit in the commodity market side and the ~~money~~ could not be made if it were not known that the banker would take the future debt in exchange for his own debt (deposit) and not only the price charged for the commodity but also the volume of the commodity sold on credit, makes allowance for the bankers' attitude in furnishing or withholding his debt payable on demand.

Thus, depending upon the bankers' advice and participation in financing the transaction, the sellers and buyers on the commodity markets regulate the dimension of the quantities and prices involved in these commodity transactions. They sell larger quantities at higher prices or smaller quantities at lower prices, according to their knowledge of the credit transactions they are conducting at the same time with the bankers on the money markets. While these are apparently two transactions on two markets, there is really only the present and the future of a single transaction.

In order to establish a terminology for these distinctions drawn from MacLeod's analysis, which separates him from his predecessors and successors, we shall make the distinction between Exchange, Marketing, and Bargaining, and, again between a passive meaning and an active meaning of Bargaining .

The physical economists' idea of exchange was that of a physical delivery of a physical commodity by laborers, including services and metallic money, fitted to the circumstances of a barter economy, and they had no independent functional significance for either MacLeod's legal delivery of legal control over commodities, or for his incorporeal property whose quality is futurity, the basis of the credit system. For this reason his meaning of exchange differed from their's as legal delivery differs from physical delivery, and the meaning of legal delivery can be preserved by the economists' term "marketing", equivalent to MacLeod's legal term "negotiability".

If so, then the term "exchange", as used by the physical economists, may be restricted, as in effect, they did, to the labor-process of production, transportation , unloading, handing out, taking in and taking home. Exchange was a phase of the technological process of production and consumption of physical goods and the bodily services of laborers.

This technological process was not at all MacLeod's idea, but his is the correct idea in all business transactions. Even in a barter economy it was, for him, not the physical transfer that had importance, but the legal transfer by which a change in ownership occurs. His was an exchange, not of things but of "property" - the legal control over things. Likewise, even in a money economy, as we have seen above, his metallic money was no longer a commodity in the physical sense - it was the legal tender representative of a debt, by the offer of which a debtor might clear himself of preceding liability to be compelled to furnish a commodity, service, or money. By reason of this liquidation of

debts, practically all business is conducted in terms of the legal tender which courts recognize, and even the duty to furnish a commodity or service is commuted into a duty to furnish legal tender money as damages. The business equivalent of this meaning of exchange is the term "marketing", wherein the legal negotiability of the property right, with its transfer of ownership or other legal control, is a necessary condition of the transaction.

This being so, the physical economists' meaning of exchange is left where they had it - a physical delivery of goods under commands of managers who take their orders from the owners, - while marketing is the legal delivery of title or control. Modern business has so completely separated this business behavior of transfering titles from the physical behavior of transferring goods, that the term "marketing" has very properly come into general use in place of the older term "exchange". And it was MacLeod who furnished the legal analysis upon which the older physical exchange of goods becomes the marketing exchange of legal control over both existing goods and future goods.

But MacLeod went further than mere marketing when it came to his constructive proposals of policy for the Bank of England in controlling the credit issues of the Bank, thereby controlling, not only the credit issues of Commercial banks but also the movements of foreign exchange and the price level of British commodities. In this respect he was a pioneer, but his meaning of exchangeability thereby passes over from marketing to bargaining. Bargaining differs from marketing in that it is not merely the exchange of legal control - it is also

fixing the prices, or relative scarcity values, and the quantities of use-values of the objects to be exchanged; This is properly to be distinguished as economic power, or power to determine prices and quantities of commodities, services or money, in the process of transactions. In this respect the Bank of England, as shown by MacLeod, exercises a control over prices and quantities, which we distinguish as the active meaning of bargaining.

MacLeod's treatment presents the concept of bargaining as partly a marketing process of transferring titles and partly a bargaining process of fixing prices and quantities. However, his distinction may be clarified by attributing to the marketing meaning the passive meaning of bargaining, whereby the individual sells or buys at the prevailing or "going" prices on the market, over which, as an individual, he has no control. This we distinguish as the passive meaning of bargaining employed by the physical economists. But MacLeod introduced the active meaning of bargaining in his theory of the Bank of England, where the active meaning is equivalent to collective control over prices and quantities.

In either of these meanings, whether active or passive, the correlative meaning of property rights is the right to withhold something that is wanted by somebody else and is therefore scarce. This meaning of property was not employed by MacLeod or the earlier physical or the later hedonic economists, since they did not appreciate Hume's meaning of property, and this is,

therefore, the ultimate reason for their failure to correlate economics and law, since property as shown by Hume, means nothing else than rights over objects that are scarce or expected to be scarce. Omitting the concept of withholding, MacLeod, like the other economists, employed the customary meanings of property inthe behavioristic sense of holding, alienating and acquiring. The idea of holding applies to his "corporeal property", and the ideas of alienating and acquiring apply to his incorporeal property, but, as we shall see, the idea of withholding is better fitted to the modern meaning of "intangible property."

If we arrange these four meanings of property according to the succession of Time involved in all transactions, then the withholding occurs in the process of bargaining <u>before</u> the point of time, when legal control of the object is transferred. The holding occurs both <u>before</u> and <u>after</u> that point of time; and the alienating and acquiring occur <u>at</u> the point of time when legal control is actually transferred. The withholding aspect of property we name Bargaining, the holding aspect is Ownership, the alienating and acquiring aspect we name Marketing, in the economic sense, and Negotiability, in the legal sense.

Carrying this correlation further, the bargaining aspect of a transaction is the scarcity meaning of property and the scarcity-value meaning of economics, in the process of transactions. The holding aspect is exclusive ownership in law and use-value in economics. The third and fourth are the meanings of exchangeability or marketing in economics and negotiability in law.

Omitting, for the present, the meaning of holding for one's

own use, and restricting our attention to the transactional meanings, we find the double meaning of property correlative to the economists' double meaning of value. One is the meaning of alienation and acquisition which, on the behavioristic side is marketing, on the legal side is negotiability and on the value side is the two-sided transfer of the use-values of commodities. The other is the meaning of withholding, which, on the behavioristic side, is Bargaining, on the legal side is liberty, privilege or immunity in refusing to deal , and on the economic side is the supply, demand, and price which epitomized the three dimension of scarcity.

MacLeod's theory was centered on what we distinguish as the marketing process but, by assuming the "law" of supply and demand, he read into the marketing process the scarcity process of bargaining. In this respect his mental process was similar to that of the physical economists who read scarcity into their meanings of production by way of its personification as labor pain or labor power. Labor-power, as a purely technical process, produces only use-values, regardless of the effect of abundance in reducing its scarcity-value. Hence their idea of the production of wealth was the paradoxical notion of producing abundance and producing scarcity.

MacLeod, by shifting economic theory to property-rights, had, unconsciously, picked out the scarcity factor, property, in the process of rejecting the abundance factor, technical productivity. We are not dealing, he said, in economics, with

material things and labor, - we are dealing with rights and titles to existing and expected physical things.

But the term property-rights also has a similar paradoxical double meaning, of alienating, or acquiring, and withholding. MacLeod employed the "alienating and acquiring" meaning and read into it the withholding meaning. Alienating and acquiring carry, within themselves, no implication of whether the object is scarce or not, and hence they fit the technological meaning of use-value. We acquire and hold it because it is useful, regardless of any change in the diminishing or increasing scarcity of the thing. But the withholding meaning carries the implication of limited resources and hence fits the economic meaning of fscarcity-value. We withhold it from others because it is scarce, and in order to maintain its scarcity-value. The two meanings are of course, inseparable in any transaction, separable only if we distinguish the time factor of the transaction, Hence the ease with which the distinction is overlooked and the paradoxes perpetrated.

MacLeod had consistently defined the economists double meaning of "production of wealth" by just one-half of its paradoxical meaning. "To produce a thing", he said, "is simply to bring it forward, and place it where it is wanted... In the universal language of commerce the <u>producer</u> is the person who brings anything into the market and <u>offers it for sale</u>. When the turn of the market is for or against the producer, it means it is for or against the seller. Hence the true and original meaning of <u>Production</u> in Economics is to <u>place anything in the market</u> or in the spot where it is
is offered for sale."

Economics is to place anything in the market of in the spot where it is offered for sale."[1]

This, he goes on to show, was the meaning of production employed by the economists. "By productive labor the Physiocrats meant labor which produced a profit after defraying the cost of production. By unproductive labor they meant labor which produced no excess of value or profit, after defraying its cost."[2]

Likewise with Adam Smith's meaning of Capital as goods employed for profit. All persons who employ their capital for profit are, for Smith, productive laborers. "These passages", says MacLeod, "agree exactly with common usage. Hence, in accordance with them and with general usage, we shall use the term productive labor to mean labor which earns or produces a profit: and unproductive labor to mean labor which earns or produces no profit, after defraying the cost of production."[3] Since this profit was to be obtained on the markets, their terms productive labor, as we have seen in our discussion of Quesnay, was products for market values and not for use-values.

Evidently, then, for all of the economists, the meaning of production had the double meaning of producing use-values but withholding production to such limited quantities that their scarcity values, compared with the scarcity values of both the goods which compose the costs, and goods for which they are sold, will leave a profit. This is the familiar double meaning of production employed

1. Elements 1:195
2. Elements 1:203
3. Ibid.

in business and tacitly accepted, as we have seen, by Smith, Proudhom, Marx and all the Physical economists except Ricardo, whose personifications of scarcity, however, prevented his followers from seeing his great contribution.

"Likewise," says MacLaod, "with the meaning of Consumption. Smith used the word consuming simply as "purchasing". It does not mean "destruction" - it means acquiring. "The consumer is simply the purchaser or customer."(1)

This is the dubious merit of MacLeod, that he eliminated the double meaning of production, consumption, and capital by confining them solely to selling and buying, but it led him into the other blunder of a double counting of commodity, once in the hands of a debtor on the commodity markets and once as the debtor's promise in the hands of his creditor, or the creditor's banker on the money market. Each of these can, indeed, be used independently for the sake of profit, but the debtor's profit is made on the commodity market while the creditor's profit is made by the banker on the money market. On both markets MacLeod employed just one half of the physical economists' double meaning of production, purchase, and consumption, They had read the purpose of profit into their meanings of production and consumption but MacLeod eliminated the technology of production and consumption altogether and dealt only with what for them had been the purpose of making a profit by selling and buying. Economics for him, was solely a science of marketing, and of demand, supply and price, whereas production and consumption proper in the

1. Elements, 1:200

technological sense were eliminated. Economics was solely therefore a science of the relative scarcities of commodities which permit profits to emerge, but exactly herein is the significance of his shift from physical things to property-rights, and therefore from production to marketing. He did not shift completely, for even his marketing was not a bargaining process, wherein the withholding aspect of property-rights is the key to the process - it was merely a passive process of exchanging goods at previously determined prices wherein the acquiring and holding aspect of property-rights is enough.(1)

Barring these blunders and defects arising from his correction of the blunders and defects of others, MacLeod contributed at least four great services to economic science. He distinguished the future of commodities from their past; he identified rights with this futurity, in contrast to Smith's and Ricardo's labor identified with their past; he made the exchange of commodities to consist in the business exchange of rights to the expected commodities instead of the phsyical exchange of transportation and delivery by laborers; and these are summarized in that he made human relations the subject matter of economic theory instead of the relations of man to nature. In these respects, rightly understood, MacLeod was the first to give to the social expectations of human beings an objective and measurable position in economic theory and to describe the actual mechanism

1. Elements 1:200

which consists in the business transfer of legal control over commodities rather than the physical transfer of physical control. His defects were his physical analogies and his individualistic notions of right against others without offsetting them by the reciprocal notion of duties to others. Both his analogies and his individualism came from the economists of his time.

CHAPTER X

Capital and Capital Goods

CHAPTER XI
Futurity and Property

CHAPTER X

CAPITAL, CREDIT, PRICES

I TURGOT

1. Hume

The School of Mercantilists did not clearly distinguish Money from Capital or Wealth. The beginnings of the distinction were Hume's distinction, in 1752, between the level of prices and the interest on Capital, and Quesnay's distinction, in 1759, between circulation of money and circulation of goods. Thereafter, economic theorizing, during a hundred and fifty years, split into two separate lines of development, the Theory of Commodities and the Theory of Money and Credit. The two were disconnected.

The Commodity theoriests worked out their principles either by the elimination of money altogether or upon the supposition that money might be considered to be a constant factor, that is, a stable price level, merely reflecting and measuring the prices of commodities determined previously without money. In either case, their explanations were equivalent to a barter economy where commodities were exchanged for commodities.

Yet, as we have seen, these commodity theoriests restored money in their personification of labor pain, labor power or diminishing utility. They substituted imaginary units of

intensity, or degree, of pain, pleasure or power, for the measurement of relative scarcities, in place of the artificial but customary units of money whose social function it is both to determine and to measure the relative scarcities of commodities on the markets. Then when it came to a theory of money or credit itself there was no organic relation to their theories of commodities. The money and credit theories were developed separately and independently of the commodity theories.

One explanation of this dualism was the lack of mathematics, for Cournot, in 1838, who first successfully applied mathematics to political economy, did not find it necessary to start with pain, pleasure or power, but started directly with the functional relations of demand, supply and price in terms of money.[1] It is the resurrection of Cournot that releases economics from the dualism of commodities and money.

There was, indeed, no possible unity of the two theories because they start from two entirely different relations of the individual to the world about. The commodity theoriests started with the relation of man to nature, revealing itself in pain, pleasure or power. The money and credit theories start with the relation of man to man, revealing itself in the various meanings of property which we shall examine in the next chapter. What each theory recognized as its problem was an

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1 Cournot, Antoine, Recherches sur les Principes Mathematiques de la Theorie des Richesses, (1838, tr. by Irving Fisher).

explanation of the economic behaviorism of mankind; but, instead of starting with the behavior itself, the commodity theoriests started with theories of causation supposed to explain the behavior. It is, however, submitted that the formulae of bargaining transactions, managerial transactions and credit transactions, governed by the working rules of custom and going concerns, furnish a starting point of man's relation to man which is also man's relation to nature. Here the unit of observation is not the individual man, but is that expected repetition, variability and multiplication of transactions which constitute all that there is in the formula of custom and going concerns. And instead of an assumption that money is a constant factor, reflecting the prices and volumes of commodities, money and credit became one of the set of variables playing its part in the scheme of collective control of limiting and complementary factors.

It remain, therefore, to trace out historically the development of theories which make money and credit their center, as we have done with those which make commodities, labor and pleasure their center, and thereby to find the unity of both theories in the modern idea of a going concern whose most striking characteristic is that expected repetition of credit transactions which unites in one process the meanings of capital, credit and prices.

The high points of this line of economic theorizing will be found in Hume's essays on Money, Interest and Balance

of Trade, 1752; Turgot's revision, in 1770, of Quesnay's Circulation of Metallic Money; the Report of the Bullion Committee, 1810, on the note issues of the Bank of England; Tooke's Theory in 1823, of bank discount; MacLeod's theory , 1856, extending Tooke's theory; Wicksell's speculations respecting a world price level and discount rates, in 1898; and the experimental application of Wicksell's theory in the newly developing central bank of the world, the Federal Reserve System of the United States cooperating with other central banks.

The theories of Hume and Turgot were supplementary, and an examination of them carries us to the original contributions which first effectually separated modern economics from Mercantilism. Their theories on capital, money and interest were accepted by Adam Smith who, as stated by Cassel, added nothing to them.[1] In fact, Smith's originality consisted in switching economic theory from money to labor.

Hume[2] distinguished between the scarcity or abundance of money and the "manners and customs of the people".[3] The proportion between the quantity of money "which circulates" and the quantity of commodities "which come or may come to market" determines the high or low level of prices; but

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1 Cassel, G., The Nature and Necessity of Interest, 23 (1903).
2 Hume, David, "Of Money", "Of Interest", "Of Balance of Trade" in Essays, Moral, Political and Literary, 1:309, ff. (1752).
3 Ibid., 1:316.

the manners and customs of the people determine the quantity of capital saved and the resulting rate of interest. "In a state where there is nothing but a landed interest, as there is little frugality, the borrowers must be very numerous and the rate of interest must hold proportion to it."[1] But in a land of commerce and manufacture, "it is an infallible consequence of all industrious professions, to beget frugality, and make the love of gain prevail over the love of pleasure". And, "in order to have a great number of lenders, it is not sufficient nor requisite that there be great abundance of the precious metals. It is only requisite, that the property or command of that quantity, which is in the state, whether great or small, should be collected in particular hands, so as to form considerable sums, or compose a great monied interest. This begets a number of lenders, and sinks the rate of usury; and this. . . depends not on the quantity of specie but on particular manners and customs, which make the specie gather into separate sums or masses of considerable value."

Finally, the competition of merchants, which arises from an "extensive commerce", reduces both profits and interest. Hence it follows that "those who have asserted, that plenty of money was the cause of low interest, seem to have taken a collateral effect for a cause; since the same

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1 Op. cit., 1:323.

industry, which sinks the interest, commonly requires great abundance of the precious metals. A variety of fine manufactures, with vigilant enterprising merchants, will soon draw money to a state, if it be anywhere to be found in the world. . . Though both these effects, plenty of money and low interest, naturally arise from commerce and industry, they are altogether independent of each other."[1]

Thus Hume was the first to distinguish the two relations of money, one relating to the level of prices, the other to the rate of interest. They represent two independent values of money: the prices paid by buyers on the commodity markets and the price paid by borrowers for the use of money on the capital market. The greater or less quantity of money "has no influence on the interest. . . but the greater or less stock of labor and commodities must have a great influence; since we really and in effect borrow these, when we take money upon interest".[2]

Furthermore, when we pay the interest to the lender, it is not really the money that is paid - it is the amount of labor and commodities which the amount of money-interest will purchase. "If you lent me so much labor and so many commodities; by receiving 5 per cent you always receive proportional labor and commodities, however represented, whether by yellow or white coin, whether by a pound or ounce"[3] In other words, the same rise of prices, which

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1 Op. cit., 1:327, 328.
2 Ibid., 1:328.
3 Ibid., 1:322.

requires more money to be borrowed in order to purchase a given quantity of labor and commodites to serve as real Capital, requires also more money to purchase the labor and commodities which are the real interest. Thus money is only a representation of labor and commodities, whether they be real capital or real interest; and if more money is required to purchase the goods really borrowed, so more money is required to purchase the goods really paid as interest. Hence the amount of money has nothing to do with the rate of interest. It affects both principal and interest alike. If the prices rise or fall in buying the labor and commodities that are the real capital of the loan, so the prices rise or fall in buying the labor and commodities that are the real interest on that capital.

Yet each dimension of the value of money was subject to the law of supply and demand. On the commodity markets it is the quantity of labor and commodites offered by sellers, proportionate to the quantity of money offered by buyers; but on the capital market it was the quantity of labor and commodities which the lender's money would command, proportionate to the expected profits which the borrowers could obtain by having that command.

Here, however, Hume made the distinction between a change in the price level and stability of the price level. "In every Kingdom, into which money begins to flow in greater

abundance than formerly, everything takes a new face; labor and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plough with greater alacrity and attention."[1] This is not to be explained by the higher level of prices, but by the lag between the augmentation of money and the rise of prices. "Though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state, and makes its effect felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another, till the whole at last reaches a just proportion with the new quantity of specie which is in the Kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favorable to industry."[2] On the other hand "This interval is as pernicious to industry when gold and silver are diminishing, as it is advantageous when these metals are increasing. The workman has not the same employment from the

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1 Op. cit., 1:313.
2 Ibid.

manufacturer and merchant; though he pays the same price for everything in the market. The farmer cannot dispose of his corn and cattle; though he must pay the same rent to his landlord. The poverty, and beggary, and sloth, which must ensue, are easily foreseen."[1]

Since, therefore, by the principle of substitution, low interest and low profits, or high interest and high profits, go together, each the result of the existing commerce and industry, an interval of rising prices will be accompanied by rising profits and rising interest, but an interval of falling prices will be accompanied by falling profits and falling interest. After this interval has passed, however, and prices have reached stability, then it makes no difference in the rate of interest whether money is aburdant or scarce. Then the rate of interest is determined by the proportion between the demand by borrowers and the supply by lenders which determines the competition of each for loans, and this is the same whether the stable level of prices is high or low.

Based on these principles of the relation between money and prices, Hume attacked the Mercantilist errors respecting the balance of trade. There need be no fear that a nation will lose its proper share of the world's gold and silver when the volume of commodity imports exceeds the volume of commodity exports. The correction will be made by the rise or fall respectively of domestic prices owing to the import

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1 Op. cit.

or export of specie, until all "neighboring nations preserve money nearly proportionable to the industry and art of each." If the quantity of money in Great Britain is reduced by money exports and commodity imports, then prices of commodities will fall, other nations will "bring back the money which we had lost", and thus raise our prices to their level. And prices could not permanently rise above that level because "no neighboring nations could afford to buy from us; while their commodities, on the other hand, became comparatively so cheap, that, in spite of all the laws which could be formed, they would be run in upon us and our money flow out."[1]

Thus Hume, in 1752, tied together about the concept of money the five phenomena of prices, capital, profit, interest and foreign exchange. The quantity of money determines the rise and fall of prices in general. The quantity of capital is the quantity of commodities and labor which are bought by borrowers with the money loaned by lenders. Interest is the price paid by borrowers to lenders for the use of that money to purchase that quantity of capital. High or low levels of prices in themselves have no effect on profits or interest, but a <u>change</u> from high to low or from low to high levels, does affect profits and interest. And a disproportionate rise or fall of prices in one country is corrected by such an outflow of inflow of specie as will maintain its purchasing power about the same in different countries.

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1 <u>Op. cit.</u>, 1:333.

Although Hume had been anticipated on some of these points, he brought them together systematically so that they became the accepted doctrine of succeeding times respecting money, yet they served, as above stated, to create a dualism of the theory of money and the theory of labor and commodities.

II TURGOT

2. Capital and Capitals

Anne Robert Jacques Turgot, wisest of the Physiocrats, was to the French Revolution what John Locke was to the English Revolution. Friend and follower of Voltaire, Hume and Quesnay, governor and reformer of a pauperized French province, Minister of Finance but dismissed for shifting the burden of public expenditures to the landed nobility, his reforms were reenacted fifteen years later but his theories were buried in the Revolution which guillotined those whom he might have saved.

Turgot, unlike Locke, was executive of his own theories. While yet a provincial comptroller, twenty-five years before the Revolution, he had stated the theoretical foundations[1] for both his reforms and the modern theories that succeed to the classical and hedonic economists. Preceding the period of commercial banks, of stock exchanges and business corporations, at a time when money was silver, when landed property was "big business", when Feudalism was becoming Capitalism, he unravelled the tangle of money, value, capital, interest, the commodity market and the money market. "On the commodity market,[2] a quantity of wheat, for example," he says, "is estimated against

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1 Not published until 1770. "Reflections on the Formation and Distribution of Riches". 112 pp. (tr. 1898.)
2 Au marché.

a certain weight of silver; on the loan market[1] the object estimated is the use of a certain quantity of values during a certain time. In the first case it is a mass of silver compared with a mass of wheat; in the other case it is a mass of values compared with a certain fixed proportion of itself, which latter becomes the price of the use of this mass of value during a certain time."[2] This price is interest.

Gustav Cassel has said of this statement that, by rejecting the old idea of a "price of money" and defining interest as "the price given for the use of a certain quantity of value for a certain time", Turgot had fashioned "a formula never afterwards surpassed in clearness and definiteness."[3] What, then, is this "object" which Turgot can call a quantity or mass of values, for which a price, interest , is paid? It is a piece of paper, evidence of a legal right of action to enforce a promise to pay a mass of silver at a certain date, and an additional mass annually during the interval. The additional mass is interest, which is the price paid for the use of the value of the silver.

The same can be calculated in sheep and land, where there is no money and no promise to pay. "A piece of land which produces an annual net income[4] of six sheep can be sold for a certain value which can always be expressed by a number of sheep equivalent to this value . . . The price of a landed property[5] then will be simply a certain number of times its

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1 Commerce du prêt.
2 Sec. 78.
3 Cassel, G., "The Nature and Necessity of Interest", 20. (1903).
4 Un revenu.
5 Un fonds.

annual income; 20 times if the price is 120 sheep, 30 times if the price is 180 sheep. Thus the current price of lands (des terres) regulates itself by the ratio of its value of the property (fonds) to the value of the annual income, and the number of times which the price of the property contains the income is called the number of years' purchase.[1] Lands sell at twenty years' purchase,[2] thirty years' purchase, forty years' purchase, etc., when people pay for them 20, 30 or 40 times their annual income."[3]

Evidently Turgot might have named this landed property (fonds) also a "mass of values", and the six sheep per year a certain proportion of the mass received by the owner as the annual value of his property rights. The ratio of the number of sheep which constitute the expected yearly net income to the number of sheep which constitute the "mass of value" is the yearly "price" which the owner receives in exchange for his investment in landed property.

What is it that determines this ratio of the number of years' purchase to the annual net income? It is demand and supply. This ratio "must vary according as there are more or less people who wish to sell or buy lands, just as the price of all other articles of commerce varies according to the varying proportion between supply and demand."[4] Thus, if the "mass of value" paid by the purchaser of landed property is

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1 le denier du prix des terres. Sec. 57.
2 le denier vingt.
3 Sec. 57.
4 Ibid.

120 sheep, and the annual net income received by that purchaser is 6 sheep, then the price received by the purchaser and paid by the seller is 5 sheep per hundred per year, a ratio of 1 to 20. But if the competition of buyers of land runs the mass of value up to 180 sheep for 6 sheep per year, then the price is 3 sheep per hundred per year. The seller foregoes his expectation of 5 sheep per hundred per year when the buyer pays for the expectation a "mass of value" equal to 120 sheep; or the seller foregoes his expectation of 3 sheep per hundred per year when competition forces the buyer to pay for the expectation a "mass of value" equal to 180 sheep.

Finally, Turgot converts the loan and the land, the wheat and the sheep, into equivalent silver. "Whether 20,000 ounces of silver on the commodity market are the equivalent of 20,000 measures of wheat or only of 10,000, the use of these 20,000 ounces of silver during the year will none the less, in the loan market, be worth the twentieth part of the principal sum, or 1,000 ounces of silver, if the interest is at twenty years' purchase."[1] In other words, whether the price of wheat per bushel or of sheep per head is one ounce or two ounces of silver, makes no difference in the rate of interest, or number of years' purchase, since this is a price of a very different kind. In the one case two different quantities of two <u>different commodities</u> - ounces of silver and bushels of wheat, or ounces of silver and head of sheep - are exchanged at the <u>same time</u> upon a commodity market. In

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1 Sec. 78.

the other case, two different quantities of the same commodity - silver, wheat, or sheep, as the case may be - are transferred at different times upon a loan or investment market. In the first case it is the cirulation of silver as money that determines the commodity price, now of wheat, now of sheep, now of any commodity; in the other case it is these prices of commodities thus determined which are the "mass of values" loaned and borrowed on the credit market or bought and sold on the real estate market.

The same principles hold true in manufactures of all kinds, as well as in the cultivation of land, the loan of money and all branches of commerce. For each of these alike Turgot distinguishes "capital" from "capitals" - "capital" being the "mass of values" advanced by entrepreneurs and lenders, but "capitals" being the "mass of accumulated riches" thus advanced. The distinction is the same as that which J. B. Clark, a century and a quarter later, made between a "fund of capital" and a "flow of capital goods". Capital is capital-fund or capital-value; but capitals, or capital goods, are capital-instruments. The first is the money-value of the second.

This distinction gives to Turgot the "true idea of the circulation of money." It is "a mass of capitals, or of moveable accumulated riches, which having been at first advanced by the entrepreneurs in each of these different classes of labors, must return to them every year with a steady profit; that is, the capital to be again invested and advanced anew in the continuation of the same enterprises, and the profit to provide

for the more or less comfortable subsistence of the entrepreneurs. It is this advance and this continual return of capitals which constitute what one must call the circulation of money; that useful and fruitful circulation which gives life to all the labors of the society, which maintains movement and life in the body politic, and which is with great reason compared to the circulation of the blood in the animal body."[1]

Thus "capital" is a "mass of values", by which is meant, not a mass but an "estimation" of values, consisting of the prices paid in silver as it circulates among, not a calculation, but a real mass of commodities purchased in the commodity markets. That is, capital is a repetition of spot prices paid in silver for commodities. But interest also is a repetition of spot prices paid in silver as it circulates in the purchase of commodities in the commodity markets. The difference is that "capital" is the market value of accumulated commodities purchased by the entrepreneur for his enterprise; but interest is the market value of unaccumulated commodities purchased by the capitalist who receives the interest.

Yet the accumulated commodities are being continually broken down by being used up, and must be renewed. "Capital" is thus, not a "mass" of values but a calculation of values, calculated as existing, "invested and advanced" in a real mass of commodities accumulated at a point of time. But the real commodities are continually used up and therefore must be renewed by means of the circulation of money during a flow of time, in order that the "capital" itself - the calculation of

1 Sec. 68.

accumulated values - may remain unimpaired. During the same period of time the interest on capital is - not a changing mass of commodities with a constant calculation of value - but a constant inflow, to the entrepreneur, of the commodity silver obtained by selling his other commodities for silver as the latter circulates through the commodity markets. A part of this silver he pays as interest to the capitalist who advanced the silver.

This "capital" is savings, and it is savings that permit the distinction and the correlation to be made between interest and profits.[1] "The Scholastic theologians have concluded from the fact that money produces nothing by itself that it was unjust to demand interest for money placed on loan."[2] But interest is not paid for the use of money - it is paid for the use of the value of money. "Money considered as a physical substance, as a mass of metal, does not produce anything; but money employed in advances for enterprises in Agriculture, Manufacture, and Commerce procures a definite profit. With money one can purchase an estate, and thereby procure a revenue. The person, therefore, who lends his money does not merely give up the barren possession of that money; he deprives himself of the profit or of the revenue which he would have been able to procure by it. He waits for the sale of the output to return to him not only his advances but a profit in addition, sufficient to make up to him for what his

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1 Secs. 73, 60.
2 Ibid.

money would have been worth to him if he had employed it in the purchase of an estate. And the interest which indemnifies him for this privation cannot be regarded as unjust."[1]

This value of money, but not the money itself, is capital, and capital, while it comes from savings, is formed into capital by means of money. "Money plays scarcely any part in the sum total of existing capitals; but it plays a great part in the formation of capitals. In fact, almost all savings are made in nothing but money; it is in money that the revenues come to proprietors, that the advances and the profits return to entrepreneurs of every kind: it is therefore from money that they save, and the annual increase of capitals takes place in money: but none of the entrepreneurs make any other use of it than to convert it immediately into the different kinds of effects upon which their enterprise depends; and thus this money returns to circulation, and the greater part of capitals exists only in effects of different kinds."[2] Thus capital is "formed" by giving money values to such capitals on the commodity markets as are saved. "Whoever, either from the revenue of his land, or from the wages of his labor or industry, receives each year more values than he needs to spend, may place this superfluity in reserve and accumulate it: these accumulated values are what is called a capital."[3]

Hence not only the money value of landed property is capital, but also the money values advanced in manufacturing

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1 Ibid.
2 Sec. 101.
3 Sec. 58.

and industrial enterprises for tools, materials, buildings, and likewise the money values advanced for agriculture, distinguished from mere ownership of the land. These include the money advanced for the seeds, fertilizers, cattle, and permanent improvements on the land as well as the subsistence of peasant cultivators, and farm laborers.

Turgot summarizes the different methods of employing "capitals" through investment and return of "capital", by means of "money".

"The first is to buy a landed estate which brings in a definite net income (revenu).

"The second is to invest one's money in agricultural undertakings, by taking a lease of lands, - the produce of which ought to yield, over and above the price of the lease, the interest on the advances and the price of the labor of the man who devotes his riches and his toil to their cultivation.

"The third is to invest one's capital in industrial or manufacturing undertakings.

"The fourth is to invest it in commercial undertakings.

"And the fifth is to lend it to those who want it, in return for an annual interest."[1]

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1 Sec. 83.

2. Use-Value, Scarcity-Value, Futurity

Not only did Turgot work out these larger aspects of the problem in a period of metallic money, but he also analyzed the basic details of his theory and formulated the principles of justice and public policy which he afterwards attempted to carry into execution as Minister of Finance. These significant details and principles were, first, a functional relation of use-value, scarcity-value and futurity; second, a marginal productivity theory of capital and an unearned income above the margin; third, the practical application in his effort to shift the public burdens from the necessary incomes of industry, agriculture, commerce and labor to the unnecessary superfluous incomes of the landed nobility. Each of these details and principles centered in his theory of Value, Capital and Money. Each was a development from, and a practical application of, the elementary distinctions started by Hume and Quesnay.

The universal principle upon which the circulation of money determines what shall be the mass of values on the capital market and the flow of values on the commodity markets is the principle that "every commodity is a representative pledge of all the objects of commerce."[1] Out of this idea of particular "pledges" arises the "universal pledge", money. Particular pledges ensue because commerce "gives to every commodity a current value relatively to every

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1 Un gage representatif. Sec. 38.

other commodity; whence it follows that every commodity is the equivalent of a certain quantity of every other commodity, and can be regarded as a pledge which represents it."[1]

Thus the person who owns any commodity has a kind of pawn or security that some undesignated person will furnish to him an unspecified quantity of some undetermined commodity upon an undiscovered market. MacLeod afterwards called this expectation a "debt". It is, of course, not a debt, nor a pledge, except by picturesque analogy. It is an expectation based on repeated experience. It is the expected purchasing power, exchange-value, in short, the highly variable scarcity-value of each commodity in expectation of transactions on some market. But Turgot's metaphor is less a metaphor than that afterwards set forth by Smith, Ricardo and Marx, wherein scarcity-value was pictured as the amount of labor embodied in, or commanded by, the commodity, and much less metaphorical than the "quantity of pleasure or pain" set forth by Bentham and his marginal-utility disciples out of their intuition for an unrevealed scarcity-value. Sciences generally begin with metaphors, but Turgot began consciously, the others without knowing it.

But there is another source of variability of value in all commodities, but least so in gold and silver. This is the physical deterioration of their use-value.

Turgot describes the experiments of tribes and peoples

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1 Sec. 33.

in the search for a stable commodity that shall serve as a "universal representative pledge". They tried shells, cattle, negroes, etc., and finally settled on gold and silver, which "without any arbitrary convention among men, without the intervention of any law, but by the nature of things, are susceptible of being the measure and pledge of other values. They are not, as many people have imagined, signs of values; they have themselves a value. They differ only because being at once more divisible, more unalterable, and more easy to transport than the other commodities, it is more convenient to employ them to measure and represent the values."[1]

Here, of course, is the double meaning of the word Value. Gold and silver, as physical things, have use-value, measured by weight; but, as commodities, they have scarcity value measured by purchasing power. When reduced to two artificial units of measurement - the ounce of use-value, and the dollar of scarcity-value - then the multiple of the two is Value. One is inseparable from the other and they exhibit a functional relation such that either a change in use-value by change in physical quality, or a change in scarcity-value by change in supply or demand, will change the functioned result - value. Evidently when Turgot says that gold and silver "have themselves a value" and are "not signs of value", he means they have themselves a scarcity value; but when he says they are divisible, unalterable, transportable, he means they have use-value. So when he

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1 Sec. 43.

says they furnish "a measure and a pledge of other values", he describes correctly the experience of tribes and peoples in arriving at a stable use-value for the measurement of variable scarcity-values. He had already, following Hume, distinguished two meanings of the value of money, the scarcity-value on the commodity markets and the time-value on the loan market, and he now proceeded to distinguish three meanings of use-value and to indicate their functional relation to scarcity-values.

These three meanings we may name "differential use-values", and, according to the sources from which Turgot derives the differentials, they may be named Civilization Differentials, Commodity Differentials, and Unit Differentials. Civilization differentials pertain to the same kind of qualities which constitute the uses of objects, but their use-values differ with different civilizations and different states of cultural evolution. Commodity differentials pertain to different kinds of qualities of different commodities which constitute their use-values for different purposes. Unit differentials arise from differences in the same kind of qualities in different units, which thereby constitute a particular unit, better or worse than others of the same kind for the same purpose. Each of these differentials in use-values modifies the scarcity-values.

These generalizations are drawn from the way in which Turgot places his historical sketch of money. The qualities of gold and silver differ from those of other commodities, which have been used as money, "only because being at once more divisible, more unalterable and more easy to transport,

it is more convenient to employ them to measure and represent the values."[1] This is a commodity differential of use-values, distinguishing gold and silver from other commodities, which, when combined with a civilization differential, results in a scarcity differential between commodities.

"It is impossible but that the eagerness with which every one has sought to exchange his superfluous products for gold and silver rather than for other produce should have greatly augmented the value of these two metals in commerce. They have thereby become only the more suitable for their employment as pledge and common measure."[2]

Gold and silver also are subject to less unit differentials in their qualities as use-values than other commodities. "The facility with which a metal can, by various operations of chemistry, be separated from others with which it may be alloyed, makes it possible always to reduce them to the degree of purity that one desires: and then the value of the metal can only vary according to its weight."[3] Other commodities are subject to depreciation and accident such that the use-value of one unit greatly varies from the use-value of other units of the same kind. This affects its unit scarcity-value. "The man who possesses a piece of cloth is far more sure of being able to procure for himself, whenever he may wish it, a certain quantity of corn, than if he had a barrel of wine of the same value; the wine being subject to an infinity of accidents which can in an instant cause him to lose its

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1 Sec. 43.
2 Sec. 45.
3 Sec. 42.

entire price."[1] Not so with gold or silver. "While all commodities are, in some respects, money, and share more or less according to the nature of each in these two essential properties of a common measure and a representative pledge",[2] gold and silver retain a uniformity in the use-values of all their units such that only one quality, their weight, need be taken into account in commerce. Hence these commodites whose unit differentials are reduced to the minimum are more "suitable than other commodities to become the universal pledge of all the values they can measure."[3]

In various ways Turgot illustrates these differentials among use-values, and the distinctions are common-place enough. Their significance is in distinguishing use-values from scarcity-values, with which they have uniformly been either confused or eliminated from economic theorizing. Since economic value is a functional relation between use-value and scarcity-value, a change in either one of these two components is a change in value. The changes in use-value may arise from changes in civilization, as when arrows became useless; from substitution of one commodity for another commodity of different qualities, as when gold is substituted for silver; or from changes in units by deterioration which make their use-values different from the use-values of other units of the same commodity. Each of these changes modifies the scarcity-values, and hence the functional changes of uses and scarcity are changes in value. It is value that is the subject matter of transactions, and

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1 Sec. 38.
2 Sec. 39.
3 Sec. 42

not commodities, because it is expectations, that is "pledges", that are the subject matter, and these expectations are expected functional variabilities of use-values and scarcity-values.

Turgot's "mass of values was the physical analogy by which the transition is made from commodities, as the subject matter, to value as the subject matter, of transactions. When afterwards Futurity is more precisely introduced as a third function, without the metaphor of a pledge, especially with the credit system and its shift from commodities to property rights, then the physical metaphor is unnecessary, and the subject matter of transactions becomes the functional relation between Use-value, Scarcity-value and Futurity, constituting thereby Value itself as a social relation in infinite variability and social consequences. Sol Levitan offered a liveryman $10,000, at the beginning of an auction sale, for whatever sum of money he might obtain at the end of the sale. The liveryman refused. The sale yielded $10,500. $500 would have been the profit and interest for one day. The present purchasing power of this $10,000 was Value, and the thing proposed to be purchased was an expectation of an unknown amount of money income. This Value of an expectation was based on an estimation of the use values of horses, harness, buggies, and hundreds of items in their then existing state of depreciation; upon the scarcity-values of these items under all the circumstances of existing civilization and the market; and upon an estimation of what the future would bring at the end of the sale. Use values change with changes in civilization from a horseful to a horseless age; with substitution of autos

for horses; and with physical depreciation of each particular horse compared with horses in general. These changes are accompanied by changes in supply, demand and price of horses, which are the three functional constituents of scarcity-value. And the present expectation of all these changes, acting and reacting upon each other, is Value. And value is "capital", Turgot's "mass of value". It is this functional concept of Value that is both the subject-matter of transactions, going concerns and legal rights, and the inducement to future production, distribution and legal control of persons and things. It is not things that are exchanged, but expectations of the functional relations between use-values and scarcity-values.

What, then, is the meaning of the change which occurs when Turgot's "capitals" are converted into "capital", by the circulation of money? They are evidently converted from use-values into scarcity and futurity values. "Capitals", or "moveable riches", in short, "capital instruments" are the use-values of his circulating goods, but capital, or the capital-value of the instruments, is their scarcity and futurity value. Capitals are the sum of all the use-values of the nation, but capital is the sum of all the expected scarcity-values of the nation. The circulation of money performs its part, not only in bringing instruments into existence, but by limiting the quantity brought into existence so that they will have the scarcity values desired. Both their use values as instruments and their scarcity-values as limited quantity of instruments,

remain as "effects" of the circulation of money, and therefore money "represents" them.

Thus we arrive at Turgot's definition of interest, which Cassel said, as above, is "a formula never afterwards surpassed in clearness and definiteness"[1] namely, "interest is the price given for the use of a certain quantity of value during a certain time". But this "quantity of value", we see, has two dimensions. It is the quantity of instruments multiplied by the prices per unit of the instruments. In other words, it is the quantity of use-values measured by bushels, tons, etc., multiplied by the scarcity-value per unit of that quantity, measured by units of money. Since each physical unit has the same scarcity-value as the other units of the same kind, the quantity of value for which interest is paid is the quantity of scarcity-value. And this, again, is Turgot's "capital" or capital value.

Quesnay, as we have seen, attempted to eliminate scarcity values by his notion of a natural order, thus reducing his system to a circulation of use-values. But Turgot's is frankly a system of scarcity and futurity values without recourse to a natural order, and taking human behavior as it actually is in the process of buying, selling, borrowing, producing and withholding production. While, therefore, Quesnay's system becomes equivalent to what, in conformity to modern usage, we name a going plant, Turgot's becomes a going business, the two together constituting the modern "going concern".[2]

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1 Cassel, G., The Nature and Necessity of Interest, 20, 21 (1903).
2 Commons, Legal Foundations, 199 ff.

In this respect, therefore, Turgot reduced what afterwards was distinguished as fixed and circulating capital into that variability of rates of turnover of the labor and materials employed, purchased, used and sold by the capitalist owner or borrower, which process characterizes a going concern. His circulation of money was a circulation of "moveable riches", or moveable instruments, at different velocities of circulation by way of exchange for money, which gave to them the scarcity values that converted them from "capitals" into "capital". Quesnay's "moveable riches" were "advances" made by capitalists, and their totality was Turgot's sum of all "the capitals employed in all the enterprises", which, however, "never come out of them", because all such advances "must needs incessently return to the undertakers to be incessently put back into the undertaking, as otherwise it would not continue."[1] The "return" is in the form of money or money-value received by selling the product, and the "incessant putting back" was a concept of many different physical things, as well as the services of labor, purchased with money at different intervals, thus constituting different rates of turnover or velocity of circulation, both of money and of the things purchased for money and sold for money.

Thus the so-called "fixed capital" is merely a repetition of "advances" exactly like circulating capital. It diminishes by depreciation, depletion and obsolescence and must be repaired, maintained and replaced, so that its rate of turn-

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1 Turgot, 87.

over or velocity of circulation, may be the slow rate of one, ten, twenty or more years. But the so-called circulating capital is itself a stock of inventory such as a pile of coal, or other raw material, continuously depleted and restored but kept at a certain amount by purchasing fresh materials, quite the same as the machinery, buildings and even soil fertility, whose depreciation, obsolescence or depletion are continuously restored, as long as the plant is a going concern. Here the rate of turnover, or velocity of circulation, is the rapid rate of a succession of single uses which destroy the thing in using it, or a less rapid rate where several uses are performed before it is destroyed. There is thus no clear line between fixed and circulating capital, because every item of each is "circulating" at different rates of turnover.

This modern concept of a going plant incessantly renewed by fresh purchases, is merged, as in the public utility cases,[1] into an average rate of depreciation of the entire plant, indicating thereby the average period of time within which the plant must be entirely reconstructed, additional to current repairs and maintenance, "otherwise" as Turgot says, "it could not continue". This concept of an "average rate of depreciation" is equivalent to Bohm-Bawerk's "average production period", and is useful in that it enables the commission to calculate the rate at which depreciation should be allowed as a fixed overhead charge.

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1 Commons, Legal Foundations, 170.

The rate of plant depreciation is the rate of turnover, and when this is analysed for an integrated concern whose processes extend from the extraction of raw material to the sale of a finished product, and, even more so for an entire nation whose processes extend from the extraction of all raw materials to the sale at retail of all products, then it is plain that the entire process resolves itself into Karl Marx's "Social labor power" turning out raw materials, semi-finished and finished products at widely different velocities of turnover. Estimates of this national rate of turnover of the physical output of labor have been made, thus returning to the notions of Quesnay, Turgot and Marx, and Wesley Mitchell recently summarized the estimates of others to the effect that the sum of all the physical products in process from the earth to the ultimate consumer is about three or four years' of stored up labor for one year of current production.[1] In other words the total physical capital "turns over" once in three or four years, and this, as will later be seen, is a modern method of measuring Turgot's "quantity of capitals".

This modern concept of a going concern, with its measurements in terms of the circulation of money, is quite the same as both the Physiocratic notion of Quesnay and the Socialistic notion of Marx,[2] stripped, however, of the notion of interest on capital which Turgot supplied. With each of them, in-

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1 Mitchell, Wesley, Business Cycles, 98 (1927).
2 See Denis who points out that Marx restored Quesnay's notion of circulation in place of the distinction between fixed and circulating capital.

cluding Turgot, the prices of "advances" are returned to the capitalist in terms of money, at the end of the period during which they are used up. But with Turgot there must be, in addition, not only a profit for management and risk, but also interest on account of the scarcity of the capital instruments which are advanced, and in order that the capitalist may be induced to renew the advances and keep the concern agoing. Hence the velocity of the advances of money and of repayments with interest correspond to the velocity of turnover of the physical things themselves, long term advances for slow velocities, short term advances for rapid velocities. For Quesnay and Marx the same was true, but Quesnay did not distinguish interest from profit, and Marx merged both into the same piece of robbery.

Yet Turgot's inclusion of money as the standard of measurement confused a physical and proprietary meaning of capital, and his identification of circulation of money with circulation of instruments left no place for the different rates of velocity of the two. Following the lead of Quesnay he analyzed correctly one of the constituents of a going concern, namely the Going Plant, but he confused the analysis by stating it in terms of the circulation of money instead of the input of man-power and output of use-values. He thus confused a going plant with the other constituent of a going concern, namely, the going business whose characteristics are an expected outgo and income of titles of ownership at prices determined by relative scarcities. The same confusion exists in the modern idea of a going plant, which

is in the transitional period of distinguishing between the scarcity values of the physical things depending on ownership and expectation, and the mere physical process of physical delivery from one laborer or concern to another laborer or concern.[1]

This distinction rests, in part, on the difference between measuring output in units of man-hours and measuring the output in units of dollar income. One is the measurement of relative productivity, the other the measurement of relative scarcity. Neither Turgot nor Marx made this distinction, for Turgot measured input and output by the capitalistic buying and selling for money, wherein efficiency is not distinguished from ownership and scarcity; and Marx measured input and output, ostensibly by man-hours, but actually by relative scarcities determined by relative resistances of nature to the efforts of labor. The distinction waited until the modern practice of scientific management had separated the man-hour from the dollar, efficiency from scarcity, use-value from scarcity value, the going plant from the going business, and a physical process of production from a proprietary process of buying, selling and borrowing.

But, since the proprietary process is always guided by expectations of future sales at future prices, and since it is these future sales and prices that occasion business

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1 Commons, Legal Foundations, 192 ff.

demand and purchase of present output at present prices, the distinction between the physical and the proprietary process rests also on the difference between a process that does not take Futurity into account and one that does.

In order to preserve these distinctions we shall use the terms circulating instruments, circulating money (or bank credit), current prices, including wages which are the prices paid to labor for its output, and circulating capital. And we shall distinguish, as Turgot did, between the present circulation, prices and capital and the expected circulation, prices and capital. We shall also change the meaning of Turgot's "circulation of money" which he identified with circulation of instruments, into the velocity of output and the velocity of money, which do not necessarily coincide. These three considerations may be combined as follows.

Circulating instruments are all the use-values produced by all classes of labor, whether present or expected, whether in the form of separable commodities, or the direct services of labor to individuals, or of the direct serives of labor in the operation and replacement of fixed instruments when reduced by depreciation, depletion, or obsolescence. It is "circulating" in the sense used by Quesnay and Turgot, in that it is passing directly from labor into transient or durable shapes, and therefore at variable velocities or rates of turnover. It is "instruments" in the sense that all use-values are output of manual, mental and managerial labor,

adding to the potential satisfaction of wants, but without regard to prices or wages. Circulating instruments are equivalent, in part, to Turgot's "moveable riches", but they include explicitly, what Turgot implied, the direct services of labor which perish in the giving, or which offset the depreciation and depletion of relatively fixed instruments. "Circulation" here is a physical process at widely different rates of turnover of the output, the most rapid rate being that output of direct services which perish at once, the slowest rate being that of the labor which offsets depletion, depreciation and obsolescence.

Circulating money, or credit, on the other hand, is measured by the amount of purchases during a unit of time, expressed as the velocity of turnover of money, or, in modern measurements, by clearing-house transactions and the rate at which debits to individual accounts are charged off on the banker's books. Circulating instruments and circulating money may proceed at different rates of change, or different velocities, a distinction not made by Quesnay or Turgot, but which is needed in order to investigate the fluctuations of industry and prices.

Furthermore, since the one is a physical and the other a proprietary process, the one is not necessarily coincident with the other. They become coincident only at the points where purchases or sales occur, and it is this coincidence that is expressed as current prices. Current prices are the

various ratios between output and money as may be determined at the existing relative quantities and rates of velocity of each. In other words, current prices are the scarcity values of circulating instruments for the time being, and these prices change according to the changing rates at which output is progressing compared with the changing rates at which money is offered in exchange.

Finally, the concept of "circulating capital" thus becomes a function of four variables, viz., the rate of output of use-values, the rate at which labor and commodities are purchased by means of money, the current resulting prices, and also the expected rates of output at expected prices.

Thus circulating capital, in the sense of capital-value, is not a simple concept but is a highly compound one, composed of the flow of output from the total labor forces of the community, the outgo of money or credit employed in purchasing and repurchasing that output, the variable prices at which the output is moved, and the expected sales and resales at expected prices. In other words, the term "circulating capital" if it has meaning for the modern process, is to be described as the quantity of labor output at current prices which is in process of being purchased, repurchased and thereby directed, by those who have legal control, into the replacement, extension and delivery of instruments and products, in expectation of future sales of future output at future prices that are expected to yield a

profit, measured by the difference between present prices paid for output of labor and future prices to be received for the output of labor.

It was Turgot's circulation of money that explained also what he called an "apparent paradox" arising from the double meaning of the value of money as exchange value of money and interest on money. "It may happen that the very cause which increases the money in the market, and which increases the prices of other commodities by lowering the price of money, is precisely that which increases the hire of money or the rate of interest."[1]

This paradox of rising prices with rising interest was a paradox only for the Mercantilists who held that a large volume of money raises prices but lowers interest. But the paradox "ceases to be such" if we remember that money is spent when we "save" as well as when we "spend". "The money which is offered on the market to get corn is that which is daily spent to satisfy one's needs, and the money which is offered on loan is precisely what is saved from one's daily expenditure to be laid by and formed into capitals." It is the same constant quantity of money, obtained by sales of products, but the direction of its circulation is changed. If spent for consumption commodities it raises their prices which is a lowering of the "price", i. e. exchange-value, of

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1 op. cit., 76.

money. Consequently there will be that "much less money to lend", and, "as many persons will ruin themselves, there will probably be more borrowers." The interest of money will, then, increase, while "money will become more common on the market and will then fall in price, and precisely for the same reason."[1]

Here Turgot fashioned the working tool of succeeding economists, to the effect that the only difference, in a money economy, between "saving" and "spending" is the difference between the kinds of goods that are purchased. "Saving" and "spending" are both "spending", but saving is spending for "capitals", that is, "capital instruments", and "spending" is spending for consumption goods. The circulation of money may take one of two directions. If it goes for consumption goods it raises their prices and raises interest. If it goes for production instruments (capitals) it reduces prices of consumption goods and reduces interest.

By this analysis Turgot added to Hume's analysis a different reason why both prices and interest might rise or fall together. With Hume the volume of money could affect the rate of interest only when the total volume itself was changing. If the volume was enlarging, it raised prices, profits and interest; if the total volume was diminishing, it reduced prices, profits and interest. But when the volume was constant it had no effect on prices or interest. But Turgot, by merely <u>changing the direction</u> of the circulation

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1 <u>op. cit.</u>, 77.

of money without changing the total volume of money, introduced a change in the rate of interest along with a similar change in prices.

These prices, however, were the prices of consumption goods and not the prices of instrumental goods as Hume had in mind. When the prices of consumption goods rise because owners of money are spending for consumption rather than production, then consumption goods rise in price, relative to the prices of production instruments (capitals). And for the same reason, the quantity of money to be loaned is reduced and the rate of interest rises. Thus Turgot, by changing the direction of the circulation of money, introduced the idea of relative changes in prices of consumption goods and capital instruments, where Hume made no distinction, and, at the same time, correlated this relative rise or fall of consumption goods with the rise or fall of interest.

This followed from his dinstinction between spending money for consumption and spending money for saving. Even when there is no contract-loan and the "advances" are made directly by the undertaker out of his product, as when he saves a part of his crop for seed for the next crop, these advances are also, not merely "capital instruments" but are the money-values of the instruments thus advanced, upon which money-value the undertaker expects an increased money-income which shall yield him a profit. His "advances" were identical with his "savings", being a portion of his product not

consumed or sold but returned directly to the soil or to his business undertaking. Only in case he does not have enough of his own product does he borrow it, usually as a money-loan from others, as when the farmer borrows money to purchase the seed. Hence whether money is used or not it is a money-value that measures the amount of Turgot's advances. And it is this money-value of the advances that is, again, Turgot's meaning of "capital".

Turgot also identified the quantity of value loaned with the quantity of "waiting", which Cassel afterwards accepted. And he identified the interest, therefore, which is the "price given for the use of a certain quantity of value" as also the price given to an owner of capital for a certain quantity of the service of waiting. "Whoever has seen the establishment of a tanner realizes the absolute impossibility of one poor man, or even of several poor men, providing themselves with hides, lime, tan, utensils. . .buildings. . .and living during several months until the leather is sold." Who, then, will make these advances? "It will be one of those possessors of capitals, or of moveable accumulated values. . . It is he who will wait for the sale of the leather to return to him not only all his advances but a profit in addition, sufficient to make up to him for what his money would have been worth to him if he had employed it in the purchase of an estate, and, furthermore, for the wages due to his labors, his cares, his risks, and

even his skill."[1]

Cassel has worked out in modern phraseology and by means of his terms"control of capital" and "capital-disposal", this identification by Turgot of waiting and the use of "a certain quantity of value". Turgot's two terms, "waiting" and "use of capital"; denote, according to Cassel, the "same thing". Cassel's "control of capital" denotes legal control of the physical goods; his "disposal of capital" denotes the alienation or acquisition of physical goods at prices measured in money. Says Cassel, "The 'waiting' means that a man foregoes for a time the disposal of a certain sum of value. By this he enables another to dispose of capital for that period of time. The 'waiting' is thus, arithmetically considered, of the same magnitude as the control of capital, and is, like it, measured by the product of the capital and the time. It is, therefore, not generally necessary for the theory to use both expressions. We will in what follows use the word disposal of capital to indicate also the service which savers render to the capital market. In thus defining 'waiting', we have at the same time defined the service for which interest is paid as an arithmetical quantity."[2]

This identification of "saving", or "waiting", by both

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1 op. cit., 53.
2 Cassel, G., The Theory of Social Economy 184-5 (Tr. 1924); Nature and Necessity of Interest, Chapter I, (1903).

Turgot and Cassel, with the quantity of capital-instruments purchased, fails to distinguish, as pointed out by Bohm-Bawerk, Turgot's distinction between "capitals" and "capital". We should state the distinction as follows, differing considerably from Bohm-Bawerk. "Capitals", or "capital instruments", is a physical concept of use-values produced as output by labor; but "capital", or "capital-value", is a proprietary concept of the market-prices at which output will be sold by capitalists. The one is output regardless of price and therefore, when it is measured, the unit of measurement is the man-hour rate of output. But the other is output at a price, and therefore is measured in units of money. The two do not coincide, on account of the different rates at which they are moving and therefore the different prices at different times paid for the output.

This distinction, however, adds force, instead of detracting, to Cassel's concepts of "control of capital" and "capital disposal". They are legal control, and since legal control is control against adverse parties, Cassel's terms are the proprietary equivalents of Turgot's scarcity values which convert his capital instruments into capital values. Cassel's terms eliminate the physical notion of physical control of goods, which necessarily coincides with the quantity of goods controlled, by substituting legal control which varies inversely to changes in prices. He thus clearly interprets Turgot's meaning of "capital" into MacLeod's

meaning of the legal rights over capital instruments.[1] Cassel's legal control is MacLeod's "corporeal property". Cassel's "disposal of capital" is MacLeod's purchase by means of money, which MacLeod named incorporeal property but which, in accord with American usage, we distinguish as "intangible property". And Cassel's interest as a price paid for the use of a quantity of value and its equivalent service of waiting is strictly "incorporeal property" in the meaning of a debt.

But, instead of this legal control varying directly with the quantity of instruments controlled, as is the case with physical control, it varies inversely to the prices that must be paid for instruments, high prices paid signifying control of a lesser quantity of instruments than low prices.

On the other hand, the capitalist has legal control of the output of his capital instruments, and here the extent of his legal control varies directly with the prices charged, a high price received for output signifying, of course, acquisition and control of a larger quantity of money than a low price. Again, however, the extent of this legal control does not vary with the quantity of output controlled, nor with its equivalent physical control, but varies with the scarcity of the output relative to money and other goods.

Thus Turgot and Cassel are correct in asserting that the quantity of waiting or saving, when a loan is made, is the "quantity of value" and not the quantity of instruments.

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1 Below, Chapter XI.

The quantity of instruments "loaned" varies inversely to the quantity of value loaned, for the instruments are not really loaned, but are purchased by means of the money loaned, and the higher the prices of the instruments the less the quantity obtained. It is only by assuming a stable level of prices that the quantity of instruments "loaned" always coincides with the quantity of value loaned, and it is only by making this assumption that Turgot identifies the quantity of "capitals" with the quantity of "capital".

The underlying reason for making the distinction is not only the variability of prices, it is also the difference between output and income, as well as between input and outgo. Output is a physical output, whose increase is an increase of the quantity of use-values of instruments; but income is a proprietary income, whose increase may be merely an increase in prices. The further elaboration of the distinction turns on Turgot's analysis of the value of an estate in land.

3. Marginal Productivity and Rent

"The current interest on money placed on loan can, then, be regarded as a kind of thermometer of the abundance or scarcity of capitals in a nation, and of the extent of the undertakings of every sort on which it may embark. . . The price of interest may be looked upon as a kind of level beneath which all labor, all agriculture, all industry, all

commerce come to an end. It is like a sea spread over a vast area: the summits of the mountains rise above the waters, and form fertile and cultivated islands. If this sea happens to roll back, in proportion as it descends, first the slopes of the hills, then the plains and valleys, appear, and are covered with every kind of produce. It is enough that the water should rise or fall a foot to inundate immense tracts, or throw them open to agriculture. It is the abundance of capitals which animates all undertakings; and the low interest of money is at once an effect and the indication of the abundance of capitals."[1]

In other words, as Turgot illustrates, if, owing to scarcity of "capitals" the interest is 5% then the industries and agriculture are restricted to higher levels whose products sell at prices which yield 5% for capital, and the value of an estate yielding 50,000 livres is one million. But if, owing to abundance of "capitals", interest is 2½ per cent, than industry and agriculture expand to lower levels and the value of the same estate is two million.

Thus the "marginal productivity" of capitals is the "marginal income" of capital, and these are two sides of the same abundance or scarcity of capitals. The output side is "every kind of produce"; the income side is silver obtained for the output on the commodity markets. They are of the same dimension, since the silver obtained is the exchange value of the output. One side is physical productivity, the other side is

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1 Secs. 89, 90.

"value productivity", a distinction often obliterated by a double meaning of "productivity". This value productivity, however, is income, not ouput. It is first a gross income. A net operating income of silver must remain for capital in order to pay interest, the price of the mass of value advanced. Hence there are two time dimensions of the same abundance or scarcity of capitals - the future and the present. The future is the net income of silver expected from the commodity markets; the present is the number of years' purchase price paid for that expectation on the capital market. For example, he says, "A man who has a rent-roll of 50,000 livres has a property worth only a million if estates are sold at 20 years' purchase; he has two millions if estates are sold at 40 years' purchase. If interest is at 5%, all uncleared land whose produce would not bring 5% over and above the replacement of the advances and the recompense for the care of the cultivation, would remain uncultivated. No manufacture, no commerce will maintain itself which will not bring in 5% over and above the wages of the undertaker's exertions and the risks. If there is a neighboring nation in which the interest of money is only 2 per cent, not only will it carry on all the branches of commerce from which the nation where interest is 5% finds itself excluded, but, moreover, as its manufactures and merchants can content themselves with a lower profit they will place their commodities on all the markets at a much lower price."[1]

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1 Sec. 89.

Thus the abundance or scarcity of capitals operates in cumulative fashion upon the mass of value which constitutes capital. It increases or diminishes the quantity of output of commodities along with the quantity of silver income for which the output is sold; and it, inversely, raises or lowers the present value of a landed estate, which is capital.

From this it follows that depreciation and interest of capitals are as much compulsory payments as wages of labor and compensation of tenants who cultivate the soil. The worn-out and used-up capitals must be replaced in order to maintain the capital unimpaired at its initial mass of value; and interest must be paid according to the existing state of abundance or scarcity of capitals. All of these payments are "indisposable", that is, economically compelled, in the sense that the State cannot, by physical compulsion, "appropriate without public injury a part of them for the public wants . . . There exists no truly disposable revenue in a State except the net produce of lands."[1] Hence the burdens of taxation must be removed, not only from manufactures and merchants, but also from agriculture and money lending, and must be placed, not on agriculture, as is assumed by Turgot's critics, but on the land proprietors and nobility to whom this rent was paid by these manufacturers, merchants and agriculturists.

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1 Secs. 96, 99.

True, the capitalist who is "possessor of a moveable capital has his choice whether he will employ it in acquiring landed property or put it to a profitable use in the undertakings of the agricultural or industrial class." But after he "has become an entrepreneur either in agriculture or in industry" he has no more a choice of alternatives than either the workers in industry or the peasant cultivators of the soil. Even if he lends to a "proprietor or an entrepreneur", while, unlike the workers and cultivators, he can "dispose of his own person", yet he has no further choice respecting his capital itself, because it is "sunk in the advances of the enterprise, and cannot be withdrawn from it without injuring the enterprise, unless it is replaced by a capital of equal value."[1] The lender "belongs to the disposable class so far as his person is concerned, because he is engaged in no business, but he does not belong to it so far as the character of his wealth is concerned."[2]

On the other hand, the interest which the lender or capitalist receives on his money "is disposable" in the sense that he individually can use it as he pleases. But it is not disposable so far as agriculture, industry, or commerce is concerned, because they do not furnish interest to him gratuitously. Interest is determined by the general abundance or scarcity of capitals, and is therefore "the price and condition of that advance without which the enterprise could not be carried on. If this return is diminished, the capitalist will withdraw his money, and the undertaking will come to an end." This amount of interest, insofar as thus determined

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1 Sec. 94.
2 Sec. 96.

by the general abundance or scarcity of capitals, "ought to be inviolable and enjoy entire immunity, because it is the price of an advance, made to an enterprise, without which the enterprise could not go on. To touch it would be to augment the price paid for advances in all enterprises, and consequently to lessen the enterprises themselves, that is to say, agriculture, industry and commerce."[1]

It is different with the rents paid to landlords insofar as they do not work the land themselves for wages or profits, or do not make advances of capital on interest. "All that the other classes of the society receive is merely the wages and the profits that are paid either by the proprietor from his net income as rent, or by the agents of the productive class from the part set aside to satisfy their needs, for which they are obliged to purchase commodities from the industrial class. Whether these profits be distributed in wages to workmen, in profits to entrepreneurs, or in interest upon advances, they do not change their nature, and do not increase the sum of the net revenue produced by the productive class over and above the price of its labor - in which sum the industrial class participate only to the extent of the price of its labor. "The proposition then remains unshaken that there is no net income, or rent, for landlords, save the net produce of lands, and that all other annual profit is either paid by that rent or forms part of the expenditure which serves to produce it."[2]

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1 Sec. 96.
2 Sec. 99.

How this comes about is explained by Turgot, not on Quesnay's doctrine of "natural rights", but on an historical analysis which will be seen to be an economic and institutional interpretation of history.[1] First, is a territorial division of labor and exchange of products between the primitive cultivators of the soil.

Second, laborers are hired by these cultivators, or artisans are paid for their products by the cultivators, when once the "labor of the latter causes the land to produce beyond their personal wants".

Third, the wages of the laborer who has only his toil to sell, "are fixed by contract with the cultivator who pays him as little as he can; and as he has the choice among a great number of workmen, he prefers the one who works cheapest. The workmen are therefore obliged to lower the price, in competition with one another. In every kind of work it cannot fail to happen, and as a matter of fact it does happen, that the wages of the workman are limited to what is necessary to procure him his subsistence."

Fourth, the position of the cultivator is different. "The land pays him directly the price of his labor, independently of any other man or any labor contract. Nature does not bargain with him to oblige him to content himself with what is absolutely necessary. What she grants is proportioned neither to his wants, nor to a contractual valuation of the price of his days of labor. It is the physical result of the fertility of the soil, and of the wisdom, far more than

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1 Secs. 1-26, 44, 63, 98.

of the laboriousness, of the means which he has employed to make it fertile. As soon as the labor of the cultivator produces more than his wants, he can, with this superfluity that nature accords him as a pure gift, over and above the wages of his toil, buy the labor of the other members of society. The latter, in selling to him, gain only their livelihood; but the cultivator gathers, beyond his subsistence, a wealth which is independent and disposable, which he has not bought and which he sells. He is, therefore, the sole source of the riches which, by their circulation, animate all the labors of the society; because he is the only one whose labor produces over and above the wages of his labor."

Finally, the cultivator himself becomes a tenant, first a rack-rent peasant, then a capitalist tenant, when population grows and land becomes scarce. "The land filled up, and was more and more cleared. The best lands at length came to be all occupied. There remained for the last comers only the sterile soils rejected by the first. But in the end all land found its master. . . Ownership could be separated from the labor of cultivation; and soon it was. . . Landed properties as objects of commerce, are now bought and sold. . . Many proprietors have more than they can cultivate. . . . Instead of employing their whole time in toilsome labors they prefer to give a part of their superfluity to people who will work for them. . . The cultivator is now distinguished from the proprietor. By this new arrangement the produce of the land is divided into two parts. The one includes the subsistence and profits of the cultivator and the interest on his capital. What remains is that independent and disposable

part which the land gives as a pure gift to him who cultivates it, over and above his advances and the wages of his trouble; and this is the portion of the proprietor, or the net income with which he can live without labor and which he carries where he will. Hence society is divided into three classes: the class of cultivators, for which we may keep the name of productive class; the class of artisans and others who receive stipends from the produce of the land. Neither of these receive more than the recompense of their labor. Third, the class of proprietors, the only one which, not being bound by the need of subsistence to a particular labor, can be employed for the general needs of the society, such as war and the administration of justice, either by a personal service, or by the payment of a part of their revenue with which the State or the Society may engage men to discharge these functions. The name which, for this reason, suits it the best, is that of disposable class."[1]

Whence, then, comes this net produce, this net output belonging to the disposable class of landlords over and above the amounts economically compelled to be paid to the industrious classes and to capitalists as interest on advances? It does not come from their savings. "Although the proprietors have a greater superfluity, they save less because, as they have more leisure, they have more desires and more passions; they regard themselves as more assured of their fortunes; they think more about enjoying it agreeably than about increasing it: luxury is their inheritance." But wage receivers and entrepreneurs of other classes, if they have "a superfluity

1 Sec. 15.

beyond their subsistence, are also devoted to their enterprises; are occupied in increasing their fortunes; are removed by their labor from expensive amusements and passions; hence they save all their superfluity to invest it again in their business and so increase it."[1] Thus these other classes increase the abundance of capitals, reduce the rate of interest, extend cultivation to lower margins and augment the mass of value belonging to landlords.[2] If, then, the landed propritors' rents do not come from their own labor, enterprise or interest on savings, but do come from the increased product of the labor, enterprise and savings of others, they are partly a free gift arising from mere ownership of nature's resources, and partly a coerced income obtained by beating down the recompense of hired labor and peasant cultivators who do not own the land.

Hence these landlords should pay all the taxes. Capitalists would not suffer, though landlords would. "If lands alone were burdened with contribution to the public charges, as soon as this contribution was regulated the capitalist who purchased lands would not reckon in the interest of his money the part of the revenue which had to be set aside for this contribution: in the same way that a man who purchases a piece of land today does not buy the title the Parson receives, or even the tax so far as is known, but only the revenue which remains when tithe and taxes are deducted."[3] No wonder the nobility dismissed Turgot for putting his theories into practice, and brought on the revolution of

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1 Sec. 100.
2 Secs. 81, 78.
3 Sec. 98.

peasants, laborers and capitalists.

4. Turgot and Ricardo

Turgot's picture of the incoming of capitalism should be compared with Ricardo's, fifty years later. They reached similar conclusions regarding landlords, capitalists and laborers. The value of landed property, for each of them, was a right of property for which the landlord, as mere owner, gave nothing to society, but the value of capitals represented an equivalent production of commodities and services for society. And, for each of them, the laborers without property obtained only the minimum of subsistence. But they reached their conclusions by opposite roads respecting the causes of rents upon which the capital-value of landed property depended. Ricardo's "rent" was the difference between the greater niggardliness of nature on the margin of cultivation and the lesser niggardliness on better land, insofar as the differences arose from "original and indestructable" qualities of the soil. Turgot's rent arose from a free gift of nature to landlords, over and above the revenue obtained by capitalists on the same margin of cultivation as that pictured by Ricardo. But, for each of them, rents also depended upon the level of wages, higher if wages were low, lower if wages were high.

Ricardo found the principle of diminishing returns and marginal productivity only in agriculture, but Turgot found it in all manufactures, commerce and industry. Hence Ricardo gave to the marginal productivity of labor in agriculture a causal power which regulated the scarcity-values

of all commodities; but Turgot gave to the total abundance or scarcity of capitals in all occupations the causal power which determined how high or low marginal productivity should be in all occupations.

Ricardo took for granted profits and interest as belonging to the nature of things and not needing explanation. Turgot, since he came earlier in the argument regarding money and based his theory on the circulation and loan of money, expounded the nature of interest, profits and money which Ricardo took for granted.

They also reached their similar conclusions by different routes regarding money. Ricardo eliminated money and money-value, and substituted the subsistence of laborers as "capital", in order to get back to a metaphysical reality. Turgot retained the actual reality of the circulation of metallic money.

But in another respect, their reality and metaphysics were reversed. Ricardo started with the actual reality of the differential niggardliness of nature, but Turgot began with a theological assumption of the free gifts of nature.

Hence Ricardo's "capitals" were the output of labor-power working against the resistance of nature, including resistance of the soil to cultivation, and his relative scarcity, or exchange-values, was personified as the relative amounts of labor required to overcome this resistance in different occupations. Turgot's "capitals" were the same as Ricardo's, but his abundance or scarcity of capitals was the greater or lesser amounts of savings.

Turgot's "capital" was the present value of future net income, but Ricardo's "capital" was the past and present share of the total product which the capitalist devoted to the subsistence of labor. Hence Turgot's "capital" included the present value of landed property-rights, but Ricardo's capital included only the amount of labor stored up on the land in the form of "capitals", for which the capitalist had paid the subsistence of the laborers.

While it is evident that Turgot and Ricardo reached similar conclusions from opposite directions, it is evident also that their physical, theological and metaphysical assumptions held them back half-way towards modern problems. They were reasoning in a period of metallic money, instead of bank credit; a period of individual enterprise instead of concerted action of going concerns; a period of tools instead of huge going plants operated by battalions; a period when Capitalism was only beginning or half begun, out of Feudalism or half Feudalism. Yet they laid foundations later built upon. If we carry over Turgot's analysis into equivalent terms of succeeding economists, avoiding his theology and physics, his "mass of value" remains Capital, not as a mass but a calculation, or, as he named it, an "estimation" of the present value of expected net income. This "estimation" has many names, such as capital, capital value, capitalization, invested capital, investment, advances, debts, credits. The estimation is made, not in sheep or wheat, not in silver or gold, but in bank credit. Instead of a flow of silver in circulation, we have the present and expected repetition of

seller-buyer and creditor-debtor transactions on the commodity markets, the sale of the resulting debts to banks in exchange for deposit credits, and the debts to individual accounts. These constitute the funds, the purchasing power, the measure of exchange value, which are the equivalent of Turgot's value of silver in circulation. This repetition of credit transaction is conducted by agents of going concerns, and it is these going concerns that succede to Turgot's landed estates. Landed property itself is assimilated to a going concern. The ownership of the concern, or rather the ownership of the expected net income ("revenu") of the concern, including both expected interest and expected profits, is represented by bonds and stocks of corporations, or by bonds and equity of landed property. The stock exchange becomes the market for Turgot's "mass of values"; the commercial banks become the money market, or rather, the debt market, which displaces his silver market; and on the commodity markets the prices and volume of his "capitals" are determined by the repetition of debits to individual accounts. His marginal productivity of "capitals" and its equivalent marginal income for "capital", which latter are marginal interest and profits, become the "bond yield" and "stock yield" of going concerns, around which commercial rates of interest fluctuate upon the debt markets. And his ratio of interest - the price paid for the use of a mass of value - to the mass itself of which it is the price, becomes the inverse ratio of rising or falling price of bonds and stocks to the falling or rising bond yield and stock yield.