

## CHAPTER V

### SCARCITY AND INDIVIDUAL CHOICE

Preceding chapters have been preoccupied with only one set of implications of scarcity—the need for man and society to engage in *production* for the provision of goods capable of satisfying wants. The relevant contexts were the direct-use and market modes of production, extending from Robinson Crusoe at one extreme to the complex social division of labor at the other extreme.

In this chapter a parallel analysis unfolds: the implications of scarcity for *individual choice-making*. In particular, the analysis explores in detail what it implies when we say that man's wants remain unlimited in the face of relative scarcity of means. This analysis will unravel a chain of propositions that, on the one hand, relate directly to the implications of scarcity while, on the other hand, they provide an array of new concepts required for the development of later chapters.

#### I. Wants, Preferences, and Marginal Utility

What more can economics say about the nature of *wants*, one of the two basic aspects of scarcity? (Recall Chapter II.) What is the significance of the role of wants, not only in economic analysis but in the study of human action in general? Can the economic analysis of human wants provide insights into human motivation in general? What are the implications of our basic proposition that human wants are "unlimited"? Answers to these and related questions in this chapter will involve a chain of implications and propositions of prime importance.

##### Implications of Unlimited Wants

Let us start with the basic proposition: *Wants are unlimited*. Or, as Alchian and Allen have put it: Every person seeks a "multitude of goods." Why is this so? For one thing, the concept of wants embraces *every* imaginable object, purpose or goal that man can strive for—commercial or non-commercial, tangible or intangible, material or spiritual, aesthetic or vulgar. Economics encompasses "non-economic" man as well as "economic" man. Thus its analysis of wants must yield propositions that are consistent with propositions made about human action in general. That is, economics must assume a common or *unitary* basis to human purpose and motivation in *every* dimension of man's choice and action.

Thus, in contrast to the textbook focus on *economic man* on the assumption that his desire for economic gain or wealth sets him apart from non-economic man, or *whole man*, here it is assumed that man's "economic" and "non-economic" motivations are both prompted by the same principle. Man seeks friendship and love for the same basic reason that he strives for higher wages or greater profits; he seeks prestige, status, or fame for the same motive that he strives to accumulate wealth or fortune; he seeks to help others—as preacher, physician or healer—for the same reason that he develops new products for the market. Since there is no limit to the *variety* of what man can aspire to, nor to the *quantity* of things that would be desired by increasing numbers of people, the conclusion is inescapable: man's wants must be presumed to be "unlimited."

## All Wants Are Competitive

This brings us to our first important implication: given the condition of scarcity, the existence of unlimited wants makes *all wants competitive* with each other. At any given moment, a person has a *multitude* of wants; however, since he faces a *scarcity* of means, he is not able to realize *all* his wants at any given moment. As a consequence, every human action necessarily involves two aspects: (1) selection or choice of a given course of action on the one hand, and (2) sacrifice, foregoing, or postponement of other, alternative courses of action on the other. The first is referred to as the act of *choice* or *preference*; the second is referred to as the *opportunity cost* or *sacrifice*, which is a necessary concomitant of every human action. In this sense, every choice truly involves a "cost."

Thus, so long as man does not have the means to satisfy all his wants at the same time, any given want or goal must vie or "compete" with all other wants or goals in order to catch a person's attention. Which brings us to an important additional dimension of scarcity not discussed in Chapter II. Even in a world of *absolute abundance* of physical means, such as the Garden of Eden, all wants would remain competitive. Why? For one thing, there is the scarcity of *time*; for human beings there are only twenty-four hours in a day, even in the Garden of Eden, and since every action takes time, there cannot be enough time to accomplish all of one's goals in a given time period. So, even with an abundance of other means at one's disposal, only some wants can be favored at any one time; other wants will have to stand aside for later attention.

On closer examination, however, it is not really the scarcity of *time per se* that is the reason why wants are competitive. The true basic reason is not the objective scarcity of means, including time, but man's own *personal* inadequacy or infirmity: man himself is simply not capable of satisfying more than a few wants *simultaneously*. Even if man somehow possessed endless physical means and was somehow able to live forever, he would still be frustrated by the fact that he is personally incapable of satisfying more than a handful of wants at a time. Given this subjective incapacity, man would always be faced with the task of deciding which goals to *prefer* and act upon, and which goals to *sacrifice* and forgo.

## Substituting More for Less

Given the competitiveness of wants, economists have described human action as involving a process of *substitution*; in order to satisfy more of some wants or acquire more of some goods, man has to sacrifice other wants or other goods. That is, acquisition of more of A involves giving up some, or all, of B, C, D. . . . In this example, more of A is referred to as the "more-preferred package, while less of B, C, D . . . is referred to as the "less-preferred" package.

Following on this, human choice or action can be described as a process in which man exchanges *less-preferred* positions for *more-preferred* positions. Furthermore, the choice of A over B, C, D. . . signifies not only an act of "preference" but also an act of exchange, i.e., an exchange of the less-preferred B, C, D. . . for the more-preferred A. As one writer has put it, all action is an attempt to exchange a less satisfactory state of affairs

for a more satisfactory one."<sup>1</sup> Or, another way of putting the same thing: every human action is undertaken with the expectation or belief that it will place the person in a preferred state.

### Subjective Values and the Preference-Scale

This brings us to the next important implication. If the multitude of wants must compete with each other for one's attention because they cannot be simultaneously fulfilled, then it implies that wants stand on some kind of ladder, referred to as the *preference-scale* or *scale of subjective values*. At any given moment, one's personal preference-scale ordinally ranks the degree of urgency or importance attached to each want, with some wants assigned to a higher rank and others to a lower rank of the subjective preference-scale. More precisely: since in every human action we opt to do a *given* thing in preference to *other* things, it is clear that we do not rank or value our wants equally—the importance or urgency we attach to individual wants is *not of equal value*. Those particular wants which we decide to *act upon* are thus revealed to have greater urgency or value for us than those which we reject or postpone at the time of action. At another occasion, of course, the tables may be turned: other wants, previously neglected or postponed, emerge to occupy our attention, while previously attended wants are shunted aside.

This implies that the personal preference-scale has another very important attribute: the subjective ranking of wants or goals according to their respective importance is not rigidly fixed and unchanging but is, indeed, *ever changing*. For example, as revealed by his daily behavior, man does not act as though food were always uppermost on his mind. Similarly, the act of attending a movie reveals that, in that case, the movie is more important than, say eating dinner at a restaurant. Indeed, throughout any given day we perform a host of tasks more important than eating food.

The specific *action* we undertake at any given moment reveals the specific want we regard as *highest ranked* or the *most important* at the time. Since a person's preference-scale is subjective, personal, and therefore hidden from direct view, so to speak, it can be *revealed* to us only through specific actions and through patterns of action over time. Preference-scales have no objective existence; they become apparent only through people's actual behavior. To anyone who observes how people act out their daily lives, it is clear that a sort of musical-chairs game is being played by their numerous wants or goals, as each want or goal takes its turn occupying the highest-order rank.

### Are There Such Things As "Needs"?

At this point, some readers may be unnerved by the implication that there is no fixed, absolute "hierarchy" of wants. This assertion conflicts with the customary belief that some wants are *absolutely* more important than others, and are therefore called *needs* or *necessities*. For instance, people regard food, clothing, and shelter as "needs" or "necessities," implying that since these items are required for life and well-being, the

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<sup>1</sup> Murray N. Rothbard, *Man, Economy, and State*, Vol. I (Princeton: D. Van Nostrand Co., 1962), p. 16.

desire for them is therefore *always* more important than other wants. In contrast, of course, the term "wants," as used above, has a neutral, formal, or general connotation in that it does not imply that particular wants are always more important than others.

Indeed, as argued above, economics must assume that wants are a *subjective* dimension, and that the subjective value attached to each want is constantly changing, thereby preventing preference-scales from becoming a *rigidly fixed* "hierarchy" of wants whose topmost members constantly consist of "necessities" such as food, clothing, and shelter. Furthermore, for different individuals or in different cultures and living styles, a given goal such as food, clothing, or material possessions may be held in extremely different regard.

### Are There Any "Absolute" Wants?

More to the point is the question: What does it really mean to say that a specific want can have *absolute importance* such that it is *always* regarded as a "need"? What is an "absolutely" important want? For example, *life* would readily be regarded as such an absolute want, and food, clothing and shelter also derive their great importance from their life-sustaining roles. Yet, we daily observe countless instances in which people behave as though life itself is not regarded as an "absolute necessity."

Examples abound all around us: young men enlist in the army to defend their country in war; young men accept military draft during a shooting war, and go to the fighting front instead of evading the draft; parents of drafted youth tacitly accept the possibility that their sons may not return alive from combat; political leaders of nation-states shout all manner of slogans to justify slaughter on the battlefield; men join the police force knowing full well they may become sitting ducks for wild cop-haters; people commit suicide; others practice euthanasia and promote "right to die" movements; people drive recklessly on the freeway; people continue to smoke tobacco despite the danger of cancer; and, finally, as the poet put it, "Greater love hath no man than to lay down his life for a friend."

Each of these instances is familiar testimony to the fact that motives and values *other* than life *per se* are often held in even greater esteem than life. These values include patriotism, "national interest," "saving the world for democracy," "public service," escape from an unbearable life (!), the heightening of immediate pleasure at the expense of long-term health, and the cherishing of friendship.

None of this, of course, denies the fact that most, if not all of us, clearly prize life above all else and behave accordingly. But the fact remains that it is not life *per se* that people value uppermost so much as the *quality of life*, however that "quality" may be interpreted: very often people seek an enhanced quality of life at the expense of known risk or hazard to their health or life *per se*.

### Another View of "Needs" or "Necessities"

Thus, we are on firmer ground if we use the words "needs" or "necessities" in a less extreme sense, not to connote *absolute* wants—wants that we cannot live without, such as eating—but simply to connote wants that are *very highly valued*. But the same can be said for every want: every want is "very highly valued" or "very urgent" when we

are in the act of satisfying it. A person values food more highly at the time of eating than when it is merely on the supermarket shelf; when we are not eating, *other* wants are being attended to, revealing that *they* are for the moment more important than eating.

Often the words "needs" and "necessities" are bandied about by politicians or social reformers who wish to endow their pet legislation or program with supreme value. What better way to get votes for one's pet project—be it a freeway, a military weapon, or hospital—than to call it a "need," implying that it has supreme urgency, without which "progress" is not possible or the "national interest" cannot be served? But here, too, as in the case of food and eating, the word "needs" merely reflects the subjective valuation of the politician or reformer: they use the term merely to induce the public to believe that their project is one that it "cannot do without."

To summarize: man has an endless variety of subjective wants. Because these wants are competitive with each other, only the more-valued ones are attended to at any given time, while the less-valued ones are put aside. This implies that the preference-scale on which man ranks his various wants—from the most urgent to the least urgent—is constantly subject to change, as each currently-satisfied want assumes the top-most rank, while the remaining wants fall to lower rank. The words "needs" and "necessities" do not connote the existence of *absolutely* superior wants, but merely highly valued wants. All of this brings us to the next big step in our analysis of wants.

### Subjective Values Affected by Available Supply

So far, we have been looking at the purely *subjective* side of human wants. Thus we have regarded man as a sentient, feeling being who not only wants an endless variety of goods, but regards each want with a different sense of urgency or subjective value from moment to moment. Although the concept of wants involves an essentially subjective dimension, the subjective value attached to any given good depends not only on one's subjective preference-scale, but also on the available *supply of means* which are capable of satisfying the given want.

A quick example: In theory, the value attached to *water, per se*, would be extremely high because of its vital role as a means of life. In practice, however, the value we attach to a given quantity of water is significantly influenced also by the *supply* of water available; thus, the greater the number of gallons available, the lower the subjective value attached to any single gallon, and vice versa. Indeed, in general, the subjective value we attach to a unit of any desirable good or means (e.g., a gallon of water) is intimately and *inversely* related to the amount of goods or means available for satisfying the given want (i.e., drinking). (More on this in a moment.)

### The Famous "Paradox of Values"

In the first half of the nineteenth century, this objective influence of supply on subjective values had been generally neglected by the classical economists (Adam Smith, *et al*), which prevented them from understanding the famous *Paradox of Values*. The paradox arises as follows: If you compare the respective prices of, say, water and diamonds in the market place, why is it that the price of a unit of water is but a fraction of the price of a diamond, even though water is ever so much more valuable for life than

diamonds? Why, indeed, when life would be impossible without water, whereas we could get along without diamonds?

Implicit in the paradox is the traditional but misleading notion that the price of a good should be proportionate to some objective property of the good, such as its technical usefulness. For Adam Smith, propounder of the paradox, there was "nothing more useful" than water, whereas diamonds had "little or no" usefulness; therefore, he thought, the price of water should be very much higher than the price of diamonds. No wonder he was puzzled by the fact that market prices were exactly the reverse of what he expected.

### Explaining the "Paradox"

Clearly, the fact that water is available in ever so much greater supply than diamonds does have a bearing on the "paradoxically" low price of a gallon of water compared with the high price of a karat of diamonds. Add to this the fact that, for drinking purposes, nature provides important *substitutes*, such as milk and fruit and vegetable juices. Indeed, relatively abundant supplies of water enable us to use water not only for vital drinking and cooking, but also for less vital car-washing, swimming pools, and decorative fountains.

If supply conditions were exactly the opposite, and water was as rare as diamonds, then surely its market price would greatly exceed that of diamonds. Imagine the predicament of an explorer in the desert who has run out of water, having to bargain for some water from a passing caravan of Bedouins. He would surely offer them all the valuables he had (even diamonds) for enough water to get him to his destination.

### The Fallacy of All-or-Nothing

Furthermore, the paradox of values suffers from the fallacious assumption that the choices daily facing us are made on an *all-or-nothing basis*—that is, water *or* diamonds, food *or* movies, clothing *or* books, etc., rather than *some* amounts of each. Of course, if such were the case, no doubt we would always choose food *instead of* movies, or clothing instead of books. Actually, the choices we typically make are not of the all-or-nothing kind, but are more along the lines of "*some*-of-this *and* *some*-of-that, or "*a bit*-of-everything."

Thus, the subjective values we attach to the goods we desire are not directed toward the *whole class* or *genre* of the goods (e.g., food or liquids as a whole), but rather toward single *units* of them (e.g., pounds, gallons). Similarly, the prices we pay in the market place are not for food *as a whole*, but merely for single units of given foods (e.g., a loaf of bread). Furthermore, we not only buy food in varying amounts, but we also buy a host of *other* non-food items in varying amounts, according to our individual preferences, on the one hand, and the prices of the respective goods, on the other.

### Summary

To conclude this section: We can now see more clearly that, in practice, the entities we value most *directly* are the goods or means (e.g., water) capable of satisfying our wants (e.g., thirst), and not the wants themselves which ultimately inspire the desire

for goods or means. True, the personal or subjective want (e.g., thirst) is the fountainhead of the subjective value that we attach to the goods or means (e.g., water) capable of satisfying it. But in practice, only goods or means have the capacity of satisfying a want; therefore, it is the goods, rather than the ultimate want itself, which become the *direct* object of our subjective valuations.

Nevertheless, the value we attach to a good or means (e.g., water) *indirectly* reflects *both* (a) the subjective value attached to the uses or purposes served by the good, as ranked on our preference-scale, and (b) the relative abundance or scarcity of the supply of the good itself, as well as the availability of close substitutes. It is this latter aspect which now brings us to the *Law of Marginal Utility*, one of the most fundamental principles in economics.

### The Law of Marginal Utility

The classic statement of the *Law of Marginal Utility* is by Boehm-Bawerk in the form of a parable about a small farmer who had planted enough seeds to harvest five sacks of grain. Boehm used this parable to illustrate the following principle: for any given good, there is an inverse (opposite) relationship between (a) the *quantity* (number of units) that we possess of the given good and (b) the subjective value or importance attached to any single *unit* of that good (called the "marginal utility"), *provided* other things (subjective preferences, personal income, etc.) remain the same. In other words, the Law of Marginal Utility is a statement about the inverse relationship between (a) the total amount possessed of a given good, on the one hand, and (b) the value attached to a single *unit* of the total stock of that good.

In a moment, this principle will be illustrated by means of Boehm's parable, but first we should add the two *corollaries* that follow from the Law of MU. The first is the *Law of Diminishing MU*, which runs as follows: The greater the quantity possessed of any given good, the *lower* is the subjective value attached to a unit of the given good (the MU), other things being the same. The second is the *Law of Increasing MU*: The smaller the quantity possessed, the *higher* the subjective value attached to a unit of the given good (the MU), other things being the same. The best way to see this is through Boehm's parable.<sup>2</sup>

### Parable of Five Sacks of Grain

In Boehm's parable of the farmer and his five sacks of grain, one form of wealth possessed by the farmer is grain, which he allocates as follows: food for himself, feed for his poultry, brandy-making, and food for his parrot. These uses are listed in order of descending importance on the farmer's preference-scale, with food in the prime position, followed by poultry, brandy, and parrot. This subjective ranking of the various uses of grain is *revealed* in the way the farmer allocates his grain when his crop is harvested.

For instance, if his harvest yielded only one or two sacks, the farmer would use the grain only for food. However, if his crop amounted to three sacks, he would allocate

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<sup>2</sup> Eugen von Boehm-Bawerk, *Capital and Interest*, Vol. II: Positive Theory of Capital (South Holland, Illinois: Libertarian Press, 1959), pp. 143-150.

the third sack to feeding his poultry. Similarly, if he enjoyed a crop of four sacks, he could then also make some brandy. Best of all, if he harvested the expected five sacks, he could then indulge in feeding his pet parrot.

Thus, the value attached to a sack of grain reflected the value attached to the particular want being served by the grain. It follows then that the greater the size of the farmer's crop—and the more he can indulge his *lower*-ranked wants—the *lower* the value he attaches to a single sack of grain. Conversely, the smaller the size of his crop, the *greater* the value that he attaches to each remaining sack, since only the *more* important wants can then be satisfied. In other words, Boehm's farmer esteems each of his wants, not with an *equal* intensity, but with a *variable* intensity; for this reason, the subjective value he attaches to a single sack of grain is *variable*—not fixed or constant—varying according to the number of sacks harvested.

### The Significance of Boehm's Parable

Another way to understand Boehm's parable is as follows: imagine the farmer harvested a full crop of five sacks, but, on the way home from the fields, he lost *one* sack (which got torn, say, and its contents scattered on the road). Clearly, given the farmer's preference-scale, and given only four sacks instead of five, he will sacrifice the feeding of his parrot (the least-important of his several wants). Similarly, if he had lost *two* sacks instead of only one, we would expect him to abandon not only his parrot but also his brandy-making, which is his next lowest preference. In the extreme case, if he harvested a very meager crop of only one sack, he would clearly allocate it to his highest-valued purpose—provision of food for himself.

Thus, in general, the smaller his crop and the smaller his wealth of grain, the *greater* the value he attaches to a sack of grain (i.e., the law of *increasing MU*). Alternatively, the larger the crop he harvests, the *lower* would be the value attached to a sack of grain (i.e., the law of *diminishing MU*), and the more he could indulge in his lower-ranked wants. Another way of putting this: he would be most sensitive to the loss of a single sack when his stock is only one or two sacks, whereas when his stock is larger (four or five sacks), the sense of loss of a single sack is "diminished."

### Illustrations of the Law of Marginal Utility

Thus, the law of MU helps us answer the very basic question: What is the *subjective-value* or degree of importance attached to a *unit* of anything? The general answer is simply: It depends on *how much* you have of the thing. To use a simple example: The value I attach to a cigarette depends on how many I have in my pack; if I have a freshly opened full pack, any one cigarette would have a lower value than if I had only a very few left.

The principle is illustrated in another common situation: the airplane passenger who has packed 60 pounds of luggage for his trip, only to discover that the airline limit (without charge) is 40 pounds. He has to discard 20 pounds of stuff—but which items will it be? According to the law of MU, each "pound" has a lower MU for the passenger when he has a 60-pound limit than if he has only a 40-pound limit; thus, whatever item he

discards, we can presume it is of *lower*-ranked use, whereas the remaining 40 pounds comprise items of *higher*-ranked use.

One final example: Imagine the government imposes gasoline rationing, limiting purchases to only ten gallons a week. If, formerly, people were using gasoline an average of fifteen gallons a week, it is clear that, with five gallons less than before, drivers will have to cut back on their driving. But which trips will they sacrifice? According to the law of MU, whichever trips are sacrificed, they must be presumed to be trips of *lower* importance, while the allowed ten gallons will be used only for the *more* valued trips.

A couple of interesting historical notes on the origins of the law of MU come to mind. The principle has been traced back to Aristotle, the philosopher of ancient Greece. And the great poet Shakespeare certainly alluded to it, albeit unwittingly, when he penned these lines in *Much Ado About Nothing*:

For it so falls out,  
That what we have we prize not to the worth,  
Whiles we enjoy it, but being lack'd and lost,  
Why, then we rack the value; then we find  
The virtue that possession would not show us,  
Whiles it was ours.<sup>3</sup>

### "Marginal Utility" vs. "Total Utility"

Sometimes, upon first meeting the law of diminishing MU, the reader gets confused between what is here called "marginal utility" and another term, "total utility." We have used MU to stand for the *subjective-value* attached to a single unit of a stock of goods. On the other hand, TU stands for the "total usefulness" of the stock of goods, and depends on the *physical/technical* capacity of the goods to render services or satisfy wants. Compared with the *subjective* nature of MU, the concept of TU embraces the purely *objective*, physical dimension of technical usefulness embodied in given goods. In the case of Boehm's farmer, a larger stock of grain would, on the one hand, cause MU to diminish, but, on the other hand, would enable TU to increase.

To illustrate the difference between MU and TU: if Boehm's farmer harvested five sacks, he could satisfy all of his wants for grain and thereby enjoy a greater TU than if he had harvested only two or three sacks; nevertheless, the MU attached to any *one* sack would be less ("diminished"), as reflected by the fact that parrot-feeding is of a lower rank than food or poultry-raising. Yet this by no means contradicts the fact that, given the choice (and other things remaining the same), man would *prefer more to less*—a greater TU to a smaller TU; that is, he would prefer five sacks of grain to only one or two. On the other hand, Boehm's parable illustrates the principle that, whatever the quantity of his resources, man prefers to allocate them to higher-valued purposes rather than to lower-valued ones.

### Conclusion

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<sup>3</sup> Quoted by Henry Hazlitt, in his *The Foundations of Morality* (Princeton: D. Van Nostrand Co., 1964), p. 323.

We have explored several major ramifications of the concept of wants under conditions of scarcity. In the process, we analyzed two key dimensions of *subjective-value*: (1) the existence of ordinal preference-scales, and (2) the law of marginal utility. Awareness of these two aspects make it possible to understand the degree of importance that we attach to anything. (Time-preference, which is a third dimension of influence on subjective valuation, is discussed at length in Chapter IX.)

To culminate our understanding of wants, two tasks remain: (1) an analysis of the general principle of *motivation* underlying all human action (in the remaining sections of this chapter), and (2) an analysis of the relationship of wants to their market form, the concept of *demand* (Chapters VI and VII).

## II. The Maximizing Principle

We are now prepared to explore a fundamental proposition hereafter referred to as the *maximizing principle*. This principle follows logically from the preceding analysis of the nature of human wants, subjective valuation and preference-scale ranking, and constitutes the fundamental principle of *motivation* in human action. This principle acknowledges explicitly that human action comprises, yet bridges, the two time phases of all human action—the "beforehand" (*ex-ante*) phase on the one hand, and the "afterward" (*ex-post*) phase on the other. Exploration of these essentially different time dimensions, as well as their interconnections, will not only deepen our understanding of the nature of choice and decision-making, and human adjustment to the world around us, but will also be particularly relevant to later chapters.

The maximizing principle may be stated simply as follows: *Every* human action is undertaken with the *expectation* or belief that it will leave a person better off *than otherwise*. First, a few comments about the underlined (italicized—ed.) words. "Every" literally means **EVERY**, and involves the annoying or distressful situations of daily life—Hamlet's "thousand slings and arrows of outrageous fortune"—as well as the more pleasant and enjoyable ones. *Expectation* indicates the *ex-ante*, beforehand, or anticipatory nature of human choice and action; choices and actions are always made in the present phase, whereas their actual final outcome or result comes only in the future phase. Expected future outcomes and results of human decisions are therefore more or less unknowable in the present; they can only constitute expectations, anticipations, or speculations.

Lastly, the phrase "than otherwise" refers to the fact that human choices and actions are made under unavoidable *limitations* or *constraints*. These limitations are imposed, on the one hand, by (a) one's personal resources, capabilities, etc., (e.g., budget, skills, energy, values, beliefs, knowledge) which are naturally relatively scarce, and by (b) one's environment (physical, legal) on the other hand. Together they serve to define the array of possible alternatives that confront the human actor and from which he has to choose the preferred alternative. To put it in more familiar terms: under given circumstances, we always do the best we can with what we have—and what Nature and the Law allow.

### Categories of Human Situations

Every human action is prompted or induced by one of three possible categories of situation. The first category can be referred to as the *plus* or "net gain" situation, in which a person's goal is to become absolutely better off than he is, that is, to reach a higher status or level of well-being *in general*, be it by some tangible or intangible standard. This includes such goals as a higher income level, professional achievement and recognition, or the raising of a family. Indeed, any kind of action whose purpose is to enable the person to become "better than he was," so to speak—for example, trying a new cooking recipe—would fall into this "plus" category.

The second category is the type we face virtually several times a day, since it includes such things as eating, drinking, sleep, sex, and clothing. Here the person is typically acting to adjust to some discomfort, uneasiness, or longing. The source of the "uneasiness" may be either *internal* to his body or mind—as in the case of hunger or depression—or *external*, as in the case of a weather change. But the purpose of action is merely to restore the *customary* level of well-being. This case is referred to here as the *equilibrium* type of situation, since the goal is merely to recapture a customary plateau and not to reach a "plus" level.

The third and final category of situation may also be encountered several times a day: the purely *unfavorable* event—the disappointment, the frustration, the "bad news" (again, Hamlet's "thousand slings and arrows of outrageous fortune" that life is prone to). These are purely *minus* or "net loss" situations which leave us worse off than before, no matter what we do about them. As a consequence, a person is merely trying to "make the best of a bad situation,"—or is choosing the "lesser of two evils." Examples include: business firms that face losses and seek ways of minimizing them; the youth who faces the military draft and wonders whether military combat or draft evasion is the lesser sacrifice; the taxpayer who, facing a higher tax bill, has to decide on how to cut back on his consumer expenditures.

### Some Examples of Maximizing Behavior

Altogether, these three classes of situation encompass every conceivable case. Yet in each and every situation, *whichever* way a person decides to act, the choice is presumed to be the one which he *expects* will leave him feeling better off *than otherwise*.

For example, consider a plus situation as follows: a young accountant is offered a new job with another firm at a \$5,000 raise in pay. What are his alternatives? Plainly, only two. He can accept the new job, in which case it would indicate his belief that the change would move him up the professional ladder, and thus leave him "better off than otherwise." On the other hand, he could turn it down because, say, he believed the new working conditions would not be satisfactory, making the new job, despite the higher pay, appear worse overall than his present job. Nevertheless, he would still be maximizing if he decided to stay with his old job, since it implies a belief that this would leave him better off than otherwise.

At the other extreme—in the *minus* category—imagine a 19-year old getting a military draft notice. What are his alternatives? Suppose he considers only the following three: he could comply and become a soldier, he could evade the draft and run off to Canada or Sweden, or he could apply for a C. O. status. None of these choices appeals to him because he believes each would leave him absolutely worse off than before. Yet,

given his situation, he must select one of them. Which one will it be? The maximizing principle says that *whichever* choice he makes, it will be the one which he believes will be the "least of the evils," so to speak; that is, the one he hopes will leave him the "least worse off"—which logically will leave him better off *than otherwise*. As the balladeer, Tom Rush, once put it, "We're all making the best of a bad situation."

In the intermediate *equilibrium* category, consider the usual case of increasing hunger pangs which arouse one's appetite for the next meal. What are the alternatives? On the one hand, one could eat right away; on the other hand, one could postpone eating until it became more important to eat than to do anything else. Either way, a person will be maximizing since he has chosen to do that which he expects will make him feel "better off than otherwise."

### Generalizing the Maximizing Principle

We are now in a position to see why it would not suffice to state the maximizing principle, as some have done, as follows: "A person always chooses that course of action which he believes will put him in a *preferred* position." The reason this statement would be unsatisfactory is that the word "preferred," by itself, is limited; it prevents the statement from being sufficiently general to qualify as a general "law" or "principle" of human action.

For example, in a "net loss" situation (e.g., military draft), no possible decision could lead a person into a "preferred" position in the sense that it leaves him better off *than formerly*. If a draftee decides to flee to Canada, for instance, this could be regarded as a "preferred" situation only compared to the *available* alternatives—not compared to his former situation. Thus, it is necessary to qualify the phrase "preferred position" as follows: "...a preferred position compared to the *available* alternatives." This is why our basic statement ends with the phrase "*than otherwise*."

Similarly, the earlier proposition that human action comprises exchanges of "*less-preferred* positions for *more-preferred* positions" can now be generalized by the addition of the qualifying phrase, "from among the available alternatives;" that is, *given the options* open to him, a person always chooses to act on the more-preferred goal and rejects the less-preferred ones. Thus, even if a person accepts military service under the draft, this choice is revealed as being the "more-preferred" one *compared to any of the alternatives*.

### Possible Mismatch Between Ex-Ante and Ex-Post

We must now make it clear that the maximization principle is relevant to the *ex-ante* phase of human action, not the *ex-post* phase. The *ex-post* could very likely reveal that a person's "best laid plans" did *not* turn out as intended. In the *ex-ante* there is no way of knowing in advance whether one's expectations will materialize. It is only in the *ex-post* that it becomes possible to discover whether *ex-ante* expectations, anticipations, hopes or gambles will be realized, or whether they are to be disappointed.

Ideally, of course, each of us prefers that his decisions enjoy a *certainty* of outcome—a kind of guarantee that *ex-ante* hopes would always be realized in the *ex-post*. In practice, however, this certainty of correspondence between *ex-ante* expectations and

*ex-post* outcomes is clearly unrealistic. That is, the *ex-post* may very well bring disappointment and regret instead of successful realization and satisfaction. Indeed, the *ex-post* result may be such that, had we been able to know it in advance, we would have made some *other* choice instead of the choice actually made. Thus, we use the term "regret" to indicate one's *ex-post* awareness that he had not made the best *ex-ante* choice.

### Imperfect Knowledge and Ex-Post Regret

This brings us to the crucial question: What prevents us from knowing, *ex-ante*, whether or not—or to what degree—our maximizing choices will be disappointed, *ex-post*, and cause regret? To this we offer the following general answer: The possible mismatch between *ex-ante* expectations and *ex-post* outcomes is caused basically by *incomplete information* or degrees of ignorance ("imperfect knowledge"), a condition that potentially characterizes all situations and decisions. Indeed, the natural human condition of imperfect knowledge prevents the matching of the *ex-ante* plan and *ex-post* achievement in a host of ways.

In the market place, for instance, we are all familiar with the case of the regretful *consumer* who discovers, only after his purchase, that he could have bought the thing at a lower price elsewhere, or that he could have acquired a better quality product for the price he paid. In both types of regret, if the relevant information about price and quality had been available in advance—say, in the form of newspaper ads or TV commercials—then a more careful reading of this information could have avoided the regretted choices.

Suppose, however, that the consumer did do his homework and checked all the available ads. Even this would not preclude the possibility that he missed some attractive bargains simply because they were not advertised at all. In this case, the consumer could only by accident discover these bargains while shopping and, regrettably, after he had already made his purchase at the higher price.

Another familiar case is that of *the firm* which typically has to decide how much to produce and at what price. This decision requires some fore-knowledge of consumers' demand (more on this in Chapters VI - VIII). Yet, there is no way that anyone can know consumers' demand with sufficient precision. The reason is that consumers' tastes and preferences are constantly *changing*; so is their purchasing power. This creates a basic *uncertainty* for any firm having to forecast demand. True, a firm may engage in market research in order to increase its knowledge of market demand, but it can never really know it with certainty since there is likely a remaining residue of unknown data. Thus, the daily operations of firms provide a hotbed source of possible regret in human decision-making.

### Changes in Taste, Forgetfulness

Sometimes the source of regret can be attributed to an *ex-post* change in one's *taste* or *preference*. For example, there is the college student who first majors in one subject—say, engineering—only to discover a latent love for economics such that he is regretful of his initial preference for engineering. Or take the case of the young couple that decide to divorce after several years of a marriage they now both regret. In both

cases there is a change of mind—be it due to increased knowledge, or awareness of one's self, or of the other person's self, or simply due to increased personal maturity.

At times, regret may be caused by what appears to be a change of taste but is actually a case of *forgetfulness*. That is, a mere oversight may explain why a person undertakes action A instead of B: if he had remembered B, he would have acted on it rather than A; having forgotten about B, he had reason to regret the omission once he was again reminded of it.

### Fraud, Self-Deception

Regret may also occur in interpersonal transactions due to *fraud* or *deception* committed by one of the parties. For example, if someone paid \$8,000 for what the car dealer described as a "great car!" but which actually turned out to be a "lemon," he is a victim of a fraudulent transaction that he surely regrets: had he known better, he would not have purchased the defective car. Similarly, if the car-buyer uses counterfeit money to pay for the car, the dealer will have reason to regret accepting the bogus money. In neither case could the fraud or deception transpire if the victim were informed to begin with of the deception taking place.

In this connection, we should include the case where regret is attributable to the lack of information induced by *self-deception*. Here the relevant cause is not an objective lack of means for obtaining the required information, but rather a subjective tendency to rely on uninformed guesses—hunches, omens, or flips of the coin. Why would a person intentionally disdain reasonably obtained information in favor of a flight of fancy? It might be due to a belief that the necessary information is unknowable, and therefore a flip of the coin might be the easiest way to reach a decision. In other cases, however, where the necessary information might be ascertainable, the disdain of a search for this information in favor of deciding on the basis of un-examined data implies an act of self-deception.

### Information is a Scarce Means

At this point it is relevant to stress that whether a particular bit of information is knowable or not, or whether a given transaction is economic or non-economic, the information required for reaching non-regretful decisions is, indeed, a *scarce means*; it cannot be acquired except by the expenditure of time, effort, or wealth. This is why, in the initial elucidation of the maximizing principle, information is included among the limitations or constraints affecting every decision. Furthermore, since every human decision is effective only to the extent that it is based on information that can avoid or minimize regret in the *ex-post*, since information is truly a scarce "means," and since economics is concerned with the implications of means-end relations, we can now realize that the analysis of information and regret provides still another link between so-called "economic" behavior and human action in general.

### From Autistic to Bilateral Exchange

Before closing this section, it should be added that the maximizing principle, being applicable to *all* types of individual action, applies to *interpersonal* transactions as well. It is but a small step from arguing that (a) the individual always maximizes in the *ex-ante* by exchanging one state of affairs for another, to realizing that (b) if two people exchange with each other, whether personally or in the market place, each of them is seeking to maximize. In the former case, the maximizing is *autistic* or purely personal, involving only one person as the maximizer. In the latter case, maximizing is *bilateral*, involving two parties, both of whom seek to maximize through voluntary exchange with each other. It is this bilateral maximizing that is at the core of all interpersonal or social transactions, whether in the commerce or trade of the market place or in purely personal (non-economic) decisions.

We are all familiar with *market* exchange—for example, the type analyzed in Chapter III—in which two parties engage either in barter exchange (goods for goods or services) or in monetary exchange (money for goods or services). In all such transactions, exchange occurs because each trader believes he will be better off by exchanging than otherwise. But the same is also true for all so-called non-economic or social transactions between two people. Even though no money changes hands, the interpersonal transaction between two people is no less an *exchange* transaction than is the market transaction.

Whether the interpersonal relation involves mere conversation and pleasantries, recreation, friendship, sex, entertainment, or marriage, in every case there is a presumed voluntary mutual exchange of personal assets (tangible or intangible) in which each party expects to be made better off than otherwise. Indeed, every time two people, A and B, transact with each other, they are mutually "using each other" as a means of becoming better off than otherwise—that is, better off than being with persons C, D, E, etc., or better off than being alone. Thus it follows that *all* interpersonal transactions, whether "economic" or "non-economic," are in the nature of *exchange* transactions in which both parties exchange personal assets for mutual benefit in the effort to maximize.

### **III. Methodological Individualism**

By now we should be aware that the analysis thus far has been primarily in terms of *individual* wants, goals, and motivation. Practically no reference has been made to corresponding dimensions of "society," "government," or other social or political entities. The omission is unavoidably due to the epistemological nature of the subject—the fact that it is impossible to talk about "society" or "government" in the same way as we can about individuals. That is, it is possible to analyze individual action in terms of a *unitary* human entity and motivation—a *single* mind, body, and personality capable of formulating goals and purposes that reflect and are consistent with the person's own nature and will. However, the same cannot be said of social entities—societies, nations, states—which by their very nature comprise numerous *separate* and *different* individuals possessed of separate and different minds and goals.

#### Individual is Prior to "Society"

The matter was succinctly put by Ludwig von Mises: "For the purpose of [human] science we must start from the action of the *individual* because this is the only thing of

which we can have direct cognition. The idea of a *society* that could operate or manifest itself apart from the action of individuals is absurd. Everything social must in some way be recognizable in the action of the individual.... Every form of society is operative in the actions of individuals aiming at definite ends....<sup>4</sup> (insertion and underlinings mine).

In a similar vein, Alchian and Allen assert: "The unit of analysis is the individual. The actions of groups, organizations, communities, nations, and societies can best be understood by focusing attention on the incentives and actions of members. When we speak of the goals and actions of the United States, we are really referring to the goals and actions of the *individuals* in the United States. A business, a union, or a family may be formed to further some common interest of the constituents, but group actions are still the results of decisions of individuals" (underlinings in original).<sup>5</sup>

Finally, take the following from the textbook by P. T. Heyne on the subject of political decisions concerning the choice of government projects: "...keep in mind that entities like *states* or *cities* never really want anything. Wants and goals are always attached ultimately to individuals. When someone says, 'The people want...,' what does he mean? That all the people want it? A majority? Those who count? It is usually a good rule...to ask: *Who* wants...?"<sup>6</sup> (underlinings in original).

In summary, the implications of *methodological individualism* are clear: the only irreducible unit of human action is the *individual* actor, even when he acts as a member of a group. The "group" is merely an entity that is itself reducible to the individual members who comprise it. A group such as a committee or legislative body cannot act as a "group" except in the purely technical or legal sense, as a unit empowered to reach a group decision. It is individuals who ultimately make the decisions of groups; the *group* is merely a *means* through which individuals act, albeit in a cooperative fashion, to achieve goals ultimately serving its individual members.

Another way of seeing this: it is only the individual who, acting through a group as one of its members, is in the position of judging whether the group's decision is a "maximizing" one for him. Thus, no *group* can claim that its decisions are *representative* of the group's members; only the individual member can determine the "representativeness" of the group's decision for him.

### Some Cases in Point

A few more examples should clinch the point. Suppose a "nation" goes to war. It is clearly illegitimate to claim that entry into war—say, on the basis of Congressional decision—reflects the consent of every individual citizen in the nation. Similarly, it would be illegitimate for a political leader to claim that a given war is in the "national interest," since there exists no such unitary, homogeneous entity: one person's "national interest" could mean going to war, while for another person it could mean pacifism or

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<sup>4</sup> Ludwig von Mises, *Epistemological Problems of Economics* (Princeton: D. Van Nostrand Co., 1960), p. 43.

<sup>5</sup> Armen A. Alchian and William R. Allen, *University Economics* (3rd ed., Belmont, California: Wadsworth Publ. Co., 1972), p. 19.

<sup>6</sup> Paul T. Heyne, *The Economic Way of Thinking* (Chicago: Science Research Associates, 1973), p. 7.

isolationism. So long as individuals *differ* in their attitude toward war—or any other specific issue, for that matter—there is simply no way that a group can logically claim to be "representative" of all its individual members.

In this connection, it should be noted that the principle of *majority rule* itself is vulnerable to criticism by methodological individualists. Groups typically decide by the principle of majority rule. The very concept itself concedes the existence of *minority* views and therefore implies that a majority decision cannot represent minority viewpoints. Therefore, no group or group leader can truthfully talk in the name of "all the people," be it in a democracy or a totalitarian state.

#### **IV. The Primacy of Self-Interest**

With the aid of the maximizing principle and methodological individualism, economics logically moves on to another basic proposition about human motivation: the primary purpose of human action is to serve the "self," or the *self-interest* of the individual; human action is therefore always fundamentally "selfish." As a corollary: human action that is apparently motivated by unselfish service to *others* (so-called "altruism" or "self-sacrifice")—that is, allegedly not egoism—is at the root also motivated by self-interest. That is, what appears to be unselfish or altruistic behavior is merely a particular manifestation of basically selfish behavior, albeit in the form of a gift or service to others.

##### **Self-interest vs. Altruism: a Fallacious Dichotomy**

It has been customary to regard *self-interest* and *altruism* as basically opposite or mutually exclusive principles of motivation. The implication is that an altruistic act on behalf of others (e.g., a gift of goods or services) could not possibly be motivated by self-interest. Conversely, it is customary to assume that a person acting "selfishly"—for example, by accumulating profits and wealth—could not thereby render service or benefit to others.

First of all, regarded purely as a *practical* matter, the alleged dichotomy of self-interest and altruism simply is non-existent. The successful doctor or surgeon, for example, whose practice necessarily involves ministering to others, is usually being handsomely rewarded for his services; his "altruistic" services do not preclude his desire to be well paid for them. Conversely, the person who undertakes a career as a doctor or surgeon in order to become wealthy simply could not succeed at this goal without "altruistic" ministering to his patients. It is similarly misleading to imply that farmers, auto mechanics, teachers, lawyers and others are incapable of rendering services to others simply because their remunerative work is motivated by self-interest.

What makes altruism at the root a *self-interested* act is the fact that, while the altruistic act provides a benefit to its recipient, it is also a source of selfish satisfaction to its performer. Any "altruistic" act that is a direct source of joy, contentment, or self-satisfaction to its performer is essentially a self-interested act. The principle of *pure* altruism cannot logically imply that, in practice, an altruistic act cannot be tinged with self-satisfaction—that its performer is necessarily deprived of any joy from "doing good" for others! This logical predicament was clearly visible to Mandeville, author of *Fable of*

*the Bees* as early as 1705. More recently, Mark Twain elaborated on this theme in his sadly neglected essay, *What Is Man?* (1906).<sup>7</sup>

### Self-Interest is Pervasive

For example, for Mark Twain the only impulse that moves a person in all his actions is the impulse to "content his own spirit;" man's prime need is to secure his own self-approval. "... Both the noblest impulses and the basest" emanate from but one source, as defined by Twain's own "law" of motivation: "From his cradle to his grave a man never does a single thing which has any FIRST AND FOREMOST object but one—to secure peace of mind, spiritual comfort, for HIMSELF." Thus, when a so-called "unselfish" man does a thing that is apparently only for another person's good, at his own expense, such an apparently "unselfish" act, as Twain put it, "must do *him* good, FIRST; otherwise he will not do it." What then becomes of "self-sacrifice"? It turns out to be merely another way of acting by which man can "content his own spirit." (Underlinings and emphasis by Twain.)

### Patriotism and Charity

For Mark Twain, examples of self-contenting "self-sacrifice" are not hard to find. Let us note two such cases. For instance, *patriotism*—"that noble passion, love of country;" as patriots, men will give up the peace of home and work and march into battle, danger, and death. Why? Why would anyone who was supposedly seeking "spiritual contentment" and "peace of mind" leave his pleasant home and his family in tears and march into battle?

For Twain, the solution to this paradox is straightforward: a man joins the army and goes into battle, even though he loves peace and dreads pain, because "there is something that he loves more than he loves peace—the *approval of his neighbors and the public*. And perhaps there is something which he dreads more than he dreads pain—the *disapproval of his neighbors and the public*." (Underlinings by Twain.)

Twain's second case involves the act of *charity*. On a stormy, snowy, bitter-cold midnight, a man is about to board the horse-drawn car to return home and avoid trudging home through the dreadful storm. At this very moment he is approached by a gray, ragged old woman ("a touching picture of misery") who extends her palm and begs for respite from hunger and disease. Without a moment's hesitation he reaches into his pocket, but finds only a single quarter—just enough for his car fare! Again, without hesitation, "he gives it to her and trudges home through the storm." How did he feel plodding his way home? Twain says he was in a "state of joy ...his heart sang ...unconscious of the storm." How come? Why such a state of joy and singing heart?

Why not, says Twain. Just look at the bargain that the man got for his twenty-five cents—and his stormy walk home! For one thing, *he* could not bear the pain of seeing the poor old woman suffer; "*his* conscience would torture him all the way home.... If he didn't relieve the old woman, *he* would not get any sleep." Thus, for a mere quarter-piece,

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<sup>7</sup> Mark Twain, *What Is Man?*, Vol. 12: The Complete Works of Mark Twain (New York: Harper & Brothers, American Artists Edition, no date), pp. 1-24.

he was able to (a) free himself from "a sharp pain in his heart," (b) escape the "tortures of a waiting conscience," and (c) buy himself a full night's sleep "...all for twenty-five cents!... profit on top of profit! ...first, to *content his own spirit*; secondly, to relieve *her* sufferings." (Underlinings by Twain.)

### Self-Interest as a Formal, General Concept

Essentially, Twain is telling us not to be misled by mere appearances if we want to understand the foundation of human action. Take the case of charity. To give away cash voluntarily is essentially no less selfish than to hoard it, since the pleasures derived therefrom can exceed the "self-sacrifice" involved; otherwise the cash would not be given away.

Take the case of danger. Facing danger is not purely self-sacrificial, nor is its avoidance the height of self-interest. As every car driver knows, driving on hazardous freeways is not a *purely* negative situation that one avoids under any and all circumstances. If one drives the freeway every day to work, it must be because the monetary and psychic rewards of the job more than offset the driving hazards.

Take the case of pain. "Pain" is not always the antithesis of "pleasure." For example, the experience of pain, whether physical or psychic, may often permit a more pleasurable outcome than the avoidance of pain. Thus, the pain of surgery can be more than offset by the pleasures of a repaired condition. In the case of "neurotic" persons, patterns of behavior that may strike the "normal" onlooker as self-defeating and painful—because they only lead to "failure"—are not necessarily painful to the neurotic: he may regard his neurotic patterns of behavior as being less painful than being forced to abandon them before he is willing to do so.

In other words, the concept of self-interest is here formulated as a *general* or *formal* axiom embracing and explaining *all* human action under the unitary principle of "maximization." Thus it can be asserted that all human action seeks to achieve *net gain*—benefits or satisfactions exceeding costs or sacrifices—or, at least, to achieve *minimum loss* or least-painful outcomes. As a general axiom, therefore, self-interest is no longer associated only with *pure* gain or profit; nor is altruism any longer to be regarded as *pure* self-sacrifice and the opposite of self-interest.

### Altruism as a Source of Joy

The primacy of self-interest as the *only* underlying purpose of human action becomes even more evident when we realize that *pure* altruism is both impossible and absurd. Up to now, our argument has been: altruism is *not* in conflict with the principle of self-interest; indeed, the altruistic act is merely a peculiar form of essentially self-interested behavior. Now it is to be argued that *pure* altruism is simply an irrelevant concept to start with—logically untenable, impossible to implement, and therefore absurd.

Consider above all the following. If *pure* altruism is supposed to be the polar opposite of self-interest, it must imply an act of *pure* self-sacrifice that precludes any form of *reward*. That is, the pure altruist is precluded from receiving either payment in money or in kind, or even payment in the intangible form of joy or satisfaction. The latter

would clearly constitute a benefit or gain no less self-serving than a monetary reward. The only way that the admitted joy received from giving or rendering service to others can be made consistent with *pure* self-sacrifice is to redefine such sacrifice as a kind of joyless joy, or, indeed, a form of pure pain! But this is patently absurd. On the other hand, if we deign to define altruism as an *enjoyable* act, *per se*, and not as joyless pure self-sacrifice, the ghost is up: altruism can no longer serve as a concept antithetical to and inconsistent with personal gain, satisfaction, and self-interest.

### The Split: Altruists vs. Beneficiaries

To reinforce the argument, let us further grant the premise that altruistic self-sacrifice can be purely joyless, totally painful to its practitioners. It can then be argued that an "altruistic" society would necessarily generate a *conflict* of interest between the altruistic A's and the beneficiary B's. If the virtue of altruism lies precisely in the effective ministering to *other* peoples' wants, we must then conclude that the useful services provided by the A's actually satisfy the B's' wants. If so, we end up with a society wherein the B's' *self-interest* is being served at the A's' expense; that is, A's altruistic behavior and self-denial merely enable B's selfish enjoyment of A's gratuities: one man's altruism is the vital source of another man's selfish joy.

Ironically, therefore, altruism by A's necessarily serves to foster self-interest in others (B's) rather than suppress it. But this means there can be no *totally* altruistic society! To get a society in which *no one's* self-interest is catered to, the B's, too, would have to be precluded from enjoying selfish contentment from the A's ministrations! Only thus could there be an altruistic society *totally* antithetical to self-interest. Once again, we reach absurdity—a society in which the gratuitous benefits provided by the A's must in no way give selfish joy to the beneficiary B's!

### Some Additional Absurdities

Related to this absurdity is still another. Not only must the A's be purely self-sacrificing toward the B's—precluded from receiving payment from the B's—but the B's, too, must be precluded from rewarding the A's, *even if* they were willing to do so out of sheer gratitude! Note the paradox: despite their gratitude for the A's' goodness to them, the B's are by definition precluded from rewarding the A's in any way, for to do so would redound to the A's' benefit, thereby fostering the latter's self-interest!

A final note on the light side. The splitting of society into the A's and B's necessarily follows from the fact that for every *pure* altruist there must be a *pure* beneficiary, and vice versa. Since people logically cannot *simultaneously* be both pure altruist and pure beneficiary, society must be split up into two distinct camps, the A's versus the B's. This recalls the story in which Edgar Bergen, the ventriloquist, told his working dummy Charlie McCarthy: "Now, remember, Charlie, we're put on this earth to give help to others." To which Charlie queried: "Then what on earth are the others put here for?"

### Moral Questions Raised by Altruism

The fact that the altruistic "society" is actually split into *two* societies—into the A's and the B's—raises some basic moral questions. What happens if some of the A's refuse to bestow further gratuities on the B's, giving as their reason the desire to take care of *themselves* first? Is it now immoral for these A's, in their own self-interest, to take care of themselves and leave the B's to be taken care of by themselves or by other A's? Do the B's have any right to *force* the A's to sacrifice themselves in behalf of the B's?

Furthermore, would selfishness in the A's be morally acceptable if they decided to share their wealth with the B's only *voluntarily*, at their own discretion, without compulsion? How much of their wealth must the A's share with the B's before they cease to be "selfish"? What is the moral nature of an altruism that requires *force* and *compulsion* rather than voluntary choice for its implementation? Why would it be moral to serve *others*, but immoral to serve one's *own* self? Finally, if the B's wished to *pay* the A's for benefits received, would they have the right to do so? Unfortunately, these and related moral questions, raised by altruism and "redistribution," cannot be pursued in this book.

### Altruism Means Lower Living Standards

There are still other reasons why it is a fallacy to regard self-interest and altruism as opposing premises. The fact remains that no person could *survive* physically while acting purely altruistically. If a person, as a pure altruist, works only for others, and not for himself, he himself can survive only if (a) others, in turn, take care of *him* (tit-for-tat, so to speak) by providing *him* with food, clothing, etc., or if (b) he steals from others whatever he needs. But in both of these alternatives he is necessarily serving his own self-interest (i.e., *his* selfish desire for survival), and therefore cannot be regarded as a pure altruist. Similarly, if he does not resort to alternatives (a) and (b), but begins to produce *for himself* the things he wants, this too would be "selfish" behavior and nullify his pure altruism.

Furthermore, alternative (a) would result in a reduced standard of living for the average person. The reason is that if, in addition to the A's taking care of the B's, the B's are now to also take care of the A's, we end up with a reversion to *primitive barter* which, despite its altruistic veneer, would signify a woeful regression from the advanced division of labor achieved since the Industrial Revolution of 1750-1850 (recall Chapter III). Gone would be the obvious benefits of the monetary economy, specialization, and large-scale technology which have brought greater output per capita and rising living standards. Instead, the barter economy would force people to live from hand to mouth under conditions tantamount to poverty.

### First Things Are Still First

Pure altruism also distorts the order of reality: it overlooks the basic fact that *what* is being sacrificed and given away consists primarily of the "self" of the altruist. Therefore, in order for the altruist to be able to give anything away, he must first acquire some "self"—in the form of wisdom, skill, or product; otherwise he would have little or nothing of value to give away. And since, logically, preservation of his own life is *prior*

and *requisite* to his ability to serve others, the conclusion is clear: self-interested self-preservation is necessarily *prior* to altruism.

This can be readily seen in the case of *Robinson Crusoe*, our mythical, isolated man. His every effort to produce the means of his own survival is clearly in his own self-interest; no one could logically smear this selfishness with the taint of "immorality." How, then, does Crusoe's situation change if he suddenly abandons isolation and joins "society," to become one producer among many producers?

Once Crusoe becomes part of the social economy, it is possible for him to *exchange* his goods and services with other producers. He will trade with them so long as this leaves him better off than otherwise, in accordance with the maximizing principle. On the other hand, if he finds no advantage in trading with others, he will tend to revert to his former pattern of isolated, self-sufficient production.

### Conclusion

Finally, it is appropriate to ask: *Why* should pure altruism be regarded as superior in any way to self-interest? To regard altruism as an absolutely higher principle assumes either of the following: (a) service to others is the *only* satisfying act, whereas self-service is never satisfying; or (b) service to others is always *more* satisfying than self-service. Both of these assumptions are patently absurd; they are totally contradicted by the behavior of real people. Granted, people do not "live by bread alone," but neither do they live by altruism alone. In practice, people help each other gratuitously in many diverse ways. More importantly, however, they primarily take care of themselves first. Only in this way are they able to become altruists at all. And, irony of ironies, it is precisely because the so-called altruistic act is at bottom a self-satisfying and, therefore, self-interested act, that one is desirous of being "altruistic" (without "compensation"?!?) in the first place.