The Ethics of Liberty by Murray N. Rothbard

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BY MURRAY N. ROTHBARD

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7. INTERPERSONAL RELATIONS: VOLUNTARY EXCHANGE

IT IS NOW TIME to bring other men into our Robinsonian idyll—to extend our analysis to interpersonal relations. The problem for our analysis is not simply more people: after all, we could simply postulate a world of a million Crusoes on a million isolated islands, and our analysis would not need to be expanded by one iota. The problem is to analyze the *interaction* of these people. Friday, for example, might land in another part of the island, and make contact with Crusoe, or he might land on a separate island, and then later construct a boat that could reach the other island.

Economics has revealed a great truth about the natural law of human interaction: that not only is *production* essential to man's prosperity and survival, but so also is exchange. In short, Crusoe, on his island or part thereof, might produce fish, while Friday, on his part, might grow wheat, instead of both trying to produce both commodities. By exchanging part of Crusoe's fish for some of Friday's wheat, the two men can greatly improve the amount of both fish and bread that both can enjoy.[1] (#_ftn1) This great gain for both men is made possible by two primordial facts of nature —natural laws—on which all of economic theory is based: (a) the great variety of skills and interests among individual persons; and (b) the variety of natural resources in geographic land areas. If all people were equally skilled and equally interested in all matters, *and* if all areas of land were homogeneous with all others, there would be no room for exchanges. But, in the world as it is, the opportunity for specialization in the best uses for land and people enables exchanges to multiply vastly and immensely to raise the productivity and the standard of living (the satisfaction of wants) of *all* those participating in exchange.

If anyone wishes to grasp how much we owe to the processes of exchange, let him consider what would happen in the modern world if every man were suddenly prohibited from exchanging anything with anyone else. Each person would be forced to produce all of his own goods and services himself. The utter chaos, the total starvation of the great bulk of the human race, and the reversion to primitive subsistence by the remaining handful of people, can readily be imagined.

Another remarkable fact of human action is that A and B can specialize and exchange for their mutual benefit *even if* one of them is superior to the other in *both lines* of production. Thus, suppose that Crusoe is superior to Friday in fish *and* wheat production. It still benefits Crusoe to concentrate on what he is *relatively* best at. If, for example, he is a far better fisherman than Friday but only a moderately better farmer, he can gain more of both products by concentrating on fishing, and then exchanging his produce for Friday's wheat. Or, to use an example from an advanced exchange economy, it will pay a physician to hire a secretary for typing, filing, etc. *even* if he is better at the latter jobs, in order to free his time for far more productive work. This insight into the advantages of exchange, discovered by David Ricardo in his Law of Comparative Advantage, means that, in the free market of voluntary exchanges, the "strong" do not devour or crush the "weak," contrary to common assumptions about the nature of the free-market economy. On the contrary, it is precisely on the free market where the "weak" reap the advantages of productivity because it benefits the "strong" to exchange with them.

The process of exchange enables man to ascend from primitive isolation to civilization: it enormously widens his opportunities and the market for his wares; it enables him to invest in machines and other "high-order capital goods"; it forms a pattern of exchanges—the free market—which enables him to calculate economically the benefits and the costs of highly complex methods and aggregates of production.

But economists too often forget, in contemplating the critical importance and the glories of the free market, *what* precisely is being exchanged. For apples are *not* simply being exchanged for butter, or gold for horses. What is really being exchanged is not the commodities themselves, but the *rights to ownership* of them. When Smith exchanges a bag of apples for Jones's pound of butter, he is actually transferring his *ownership rights* in the apples in exchange for the ownership rights to the butter, and vice versa. Now that Smith rather than Jones is the absolute controller of the butter, it is Smith who may eat it or not at his will; Jones now has nothing to say in its disposition, and is instead absolute owner of the apples.

Returning now to Crusoe and Friday, suppose that more people, C, D, E . . . join Crusoe and Friday on the island. Each specializes in different products; gradually one particular product emerges—because of such qualities as high value, steady demand, ready divisibility—as a *medium of exchange*. For it is discovered that the use of a medium enormously expands the scope of exchanges and the wants that can be satisfied on the market. Thus, a writer or an economics teacher would be hard put to exchange his teaching or writing services for loaves of bread, parts of a radio, a piece of a suit, etc. A generally acceptable medium is indispensable for any extensive network of exchange and hence for any civilized economy.

Such a generally acceptable medium of exchange is defined as a *money*. It has generally been found, on the free market, that the best commodities for use as a money have been the precious metals, gold and silver. The exchange sequence now appears as follows: A, owning his body and his labor, finds land, transforms it, produces fish which he then owns; B uses his labor similarly to produce wheat, which he then owns; C finds land containing gold, transforms it, produces the gold which he then owns. C then exchanges the gold for other services, say A's fish. A uses the gold to exchange for B's wheat, etc. In short, the gold "enters circulation," i.e., its ownership is transferred from person to person, as it is used as a general medium of exchange. In each case, the exchangers transfer ownership rights, and, in each case, ownership rights are acquired in two ways and two ways only: (a) by finding and transforming resources ("producing"), and (b) by exchanging one's produce for someone else's product—including the medium of exchange, or "money" commodity. And it is clear that method (b) *reduces* logically to (a), for the only way a person can obtain something in exchange is by giving up his own product. In short, there is only one route to ownership of goods: production-and-exchange. If Smith gives up a product in exchange for Jones's which Jones also acquired in a previous exchange, then *someone*, whether the person from whom Jones bought the product or someone else down the line, must have been the original finder-and-transformer of the resource.

A man then, can acquire "wealth"—a stock of useful capital or consumer goods—

either by "producing" it himself, or by selling to its producer some other product in exchange. The exchange process reduces logically back to original production. Such production is a process by which a man "mixes his labor with the soil"—finding and transforming land resources or, in such cases as a teacher or writer, by producing and selling one's own labor services directly. Put another way: since all production of capital goods reduces ultimately back to the original factors of land and labor, all production reduces back either to labor services or to finding new and virgin land and putting it into production by means of labor energy.[2] (#_ftn2)

A man may also obtain wealth voluntarily in another way: through gifts. Thus Crusoe, upon stumbling on Friday at another end of the island, may give him some sustenance. In such a case, the giver receives, not another alienable good or service from the other party, but the psychic satisfaction of having done something for the receiver. In the case of a gift, also, the process of acquisition reduces back to production and exchange—and again ultimately to production itself, since a gift must be preceded by production, if not directly as in this case, then somewhere back down the line.

We have so far analyzed the exchange process for a multitude of exchanges of consumer goods. We must now complete our picture of the real world by analyzing exchanges along the structure of production. For exchanges in an advanced economy are not only "horizontal" (of consumer goods), but also "vertical": they proceed downward from the original transformation of land, down through the various types of capital goods, and finally to the ultimate state of consumption.

Let us consider a simple vertical pattern as it occurs in the exchange economy. Smith transforms land resources and constructs an axe; instead of using the axe to make another product, Smith, as a specialist in a vast exchange economy, sells his axe for gold (money). Smith, producer of the axe, transfers his right of ownership to Jones, in exchange for a certain amount of Jones's gold—the precise amount of gold being agreed upon voluntarily by the two parties. Jones now takes the axe and fells lumber, then sells the lumber to Johnson for gold; Johnson in turn sells the lumber to Robbins, a contractor, for gold, and Robbins in his turn constructs a house in exchange for the gold of his client, Benton. (It should be evident that this vertical network of exchange could not take place without the use of a monetary medium for the exchanges.)

To complete our picture of a market economy, let us suppose that Jones has cut down his lumber, but has to ship it down-river to transfer it to Johnson; Jones, then, sells the lumber to another intermediary, Polk, who *hires* the labor services of X, Y, and Z to transport the logs to Johnson. What has happened here, and why doesn't the use of X, Y, and Z's labor in transforming and transporting the logs to a more useful place give *them* rights to ownership of the logs?

What has happened is this: Polk transfers some gold to X and to Y, and to 2, in return for their selling to him their labor services of transporting the logs. Polk did *not* sell the logs to these men for money; instead, he "sold" them money in exchange for employing their labor services on his logs. In short, Polk may have bought the logs from Jones for 40 gold ounces, and then paid X, Y, and Z 20 gold ounces each to transport the logs, and *then* sold the logs to Johnson for 110 ounces of gold. Hence, Polk netted a gain of 10gold ounces on the entire transaction. X, Y, and Z, if they had so desired, *could* have purchased the logs from Jones themselves for the 40 ounces, and then shipped the logs themselves, sold them to Johnson for 110 and pocketed the 10 extra ounces. Why didn't they? Because (a) they didn't have the *capital*; in short, they hadn't saved up the requisite money by reducing their previous consumption sufficiently below their income to accumulate the 40 ounces; and/or (b) they wanted money payment *while they worked*, and were not willing to wait for the number of months it took for the logs to be shipped and sold; and/or (c) they were unwilling to be saddled with the risk that the logs might indeed not be saleable for 110 ounces. Thus, the indispensable and enormously important function of Polk, the *capitalist* in our example of the market economy is to save the laborers from the necessity of restricting their consumption and thus saving up the capital themselves, and from waiting for their pay until the product would (hopefully) be sold at a profit further down the chain of production. Hence, the capitalist, far from somehow depriving the laborer of his rightful ownership of the product, makes possible a payment to the laborer considerably *in advance* of the sale of the product. Furthermore, the capitalist, in his capacity as forecaster or *entrepreneur*, saves the laborer from the risk that the product might not be sold at a profit, or that he might even suffer losses.

The capitalist, then, is a man who has labored, saved out of his labor (i.e., has restricted his consumption) and, in a series of voluntary contracts has (a) purchased ownership rights in capital goods, and (b) paid the laborers for their labor services in transforming those capital goods into goods nearer the final stage of being consumed. Note again that no one is preventing the laborers themselves from saving, purchasing capital goods from their owners and then working on their own capital goods, finally selling the product and reaping the profits. In fact, the capitalists are conferring a great benefit on these laborers, making possible the entire complex vertical network of exchanges in the modern economy. For they save the money needed to buy the capital goods and to pay the laborers in advance of sale for "producing" them further.[3] (#_ftn3)

At each step of the way then, a man produces—by exerting his labor upon tangible goods. If this good was previously unused and unowned, then his labor automatically brings the good under his control, his "ownership." If the good was already owned by someone else, then the owner may either sell this (capital) good to our laborer for money, after which his labor is exerted on the good; *or* the previous owner may purchase the labor service for money in order to produce the good further and then sell it to the next buyer. This process, too, reduces back to the original production of unused resources and to labor, since the capitalist—the previous owner in our example —ultimately derived his own ownership from: original production; voluntary exchange; and the saving of money. Thus, all ownership on the free market reduces ultimately back to: (a) ownership by each man of his own person and his own labor; (b) ownership by each man of land which he finds unused and transforms by his own labor; and (c) the exchange of the products of this mixture of (a) and (b) with the similarly-produced output of other persons on the market.

The same law holds true for all ownership, on the market, of the money commodity. As we have seen, money is either (1) produced by one's own labor transforming original resources (e.g., mining gold); or (2) obtained by selling one's own product—or selling goods previously purchased with the proceeds of one's own product—in exchange for gold owned by someone else. Again, just as (c) in the previous paragraph reduces logically back to (a) and (b) production coming before exchange—so here (2) ultimately reduces logically back to (1).

In the free society we have been describing, then, all ownership reduces ultimately back to each man's naturally given ownership over himself, *and* of the land resources that man transforms and brings into production. The *free market* is a society of voluntary and consequently mutually beneficial exchanges of ownership titles between specialized producers. It has often been charged that this market economy rests on the wicked doctrine that labor "is treated as a commodity." But the natural fact is that labor service is indeed a commodity, for, as in the case of tangible property, one's own labor service *can* be alienated and exchanged for other goods and services. A person's labor service is alienable, but his *will* is not. It is most fortunate, moreover, for mankind that this is so; for this alienability means (1) that a teacher or physician or whatever can sell his labor services for money; and (2) that workers can sell their labor services in transforming goods to capitalists for money. If this could not be done, the structure of capital required for civilization could not be developed, and no one's vital labor services could be purchased by his fellow men.

The distinction between a man's alienable labor service and his inalienable will may be further explained: a man can alienate his labor service, but he cannot *sell* the capitalized future value of that service. In short, he cannot, in nature, sell himself into slavery and have this sale enforced—for this would mean that his future will over his own person was being surrendered in advance. In short, a man can naturally expend his labor currently for someone else's benefit, but he cannot transfer himself, even if he wished, into another man's permanent capital good. For he cannot rid himself of his own will, which may change in future years and repudiate the current arrangement. The concept of "voluntary slavery" is indeed a contradictory one, for so long as a laborer remains totally subservient to his master's will voluntarily, he is not yet a slave since his submission is voluntary; whereas, if he later changed his mind and the master enforced his slavery by violence, the slavery would not then be voluntary. But more of coercion later on.

The society that we have been describing in this section—the society of free and voluntary exchanges—may be called the "free society" or the society of "pure liberty." The bulk of this work will be devoted to spelling out the implications of such a system. The term "free market," while properly signifying the critically important network of free and voluntary exchanges, is insufficient when going at all beyond the narrowly economic or praxeologic. For it is vital to realize that the free market is exchanges of titles to property, and that therefore the free market is necessarily embedded in a larger free society—with a certain pattern of property rights and ownership titles. We have been describing the free society as one where property titles are founded on the basic natural facts of man: each individual's ownership by his ego over his own person and his own labor, and his ownership over the land resources which he finds and transforms. The natural alienability of tangible property as well as man's labor service makes possible the network of free exchanges of ownership titles.

The regime of pure liberty—the libertarian society—may be described as a society where *no ownership titles are "distributed,"* where, in short, no man's property in his person or in tangibles is molested, violated, or interfered with by anyone else. But this means that *absolute freedom*, in the social sense, *can* be enjoyed, not only by an isolated Crusoe but by every man in any society, no matter how complex or advanced. For every man enjoys absolute freedom—pure liberty—if, like Crusoe, his "naturally" owned property (in his person and in tangibles) is free from invasion or molestation by other men. And, of course, being in a society of voluntary exchanges, each man can enjoy absolute liberty not in Crusoe-like isolation, but in a milieu of civilization, harmony, sociability, and enormously greater productivity through exchanges of property with his fellow men. Absolute freedom, then, need *not* be lost as the price we must pay for the advent of civilization; men *are* born free, and need never be in chains. Man may achieve liberty *and* abundance, freedom *and* civilization.

This truth will be obscured if we persist in confusing "freedom" or "liberty" with *power*. We have seen the absurdity of saying that man does not have free will because he has not the *power* to violate the laws of his nature—because he cannot leap oceans at a single bound. It is similarly absurd to say that a man is not "truly" free in the free society because, in that society, no man is "free" to aggress against another man or to invade his property. Here, again, the critic is not really dealing with freedom but with power; in a free society, no man would be permitted (or none would permit himself) to invade the property of another. This would mean that his *power* of action would be limited; as man's power is always limited by his nature; it would *not* mean any curtailment of his freedom. For if we define freedom, again, as the *absence of invasion* by another man of any man's person or property, the fatal confusion of freedom and power is at last laid to rest.[4] (#_ftn4) We then see clearly that a supposed "freedom to steal or assault"—in short, to aggress—would not be a state of freedom at all, because it would permit someone, the victim of an assault, to be deprived of his right to person and property—in short, to have his liberty violated.[5] (#_ftn5) Each man's power, then, is always necessarily limited by the facts of the human condition, by the nature of man and his world; but it is one of the glories of man's condition that each person *can* be absolutely free, even in a world of complex interaction and exchange. It is still true, moreover, that any man's power to act and do and consume is enormously greater in such a world of complex interaction than it could be in a primitive or Crusoe society.

A vital point: if we are trying to set up an ethic for man (in our case, the subset of ethics dealing with violence), then to be a valid ethic the theory must hold true for *all* men, whatever their location in time or place.[6] (#_ftn6) This is one of the notable attributes of natural law—its applicability to all men, regardless of time or place. Thus, ethical natural law takes its place alongside physical or "scientific" natural laws. But the society of liberty is the *only* society that can apply the same basic rule to every man, regardless of time or place. Here is one of the ways in which reason can select one theory of natural law over a rival theory—just as reason can choose between many economic or other competing theories. Thus, if someone claims that the Hohenzollern or Bourbon families have the "natural right" to rule everyone else, this kind of doctrine is easily refutable by simply pointing to the fact that there is here no uniform ethic for every person: one's rank in the ethical order being dependent on the accident of being, or not being, a Hohenzollern. Similarly, if someone says that every man has a "natural right" to three square meals a day, it is glaringly obvious that this is a fallacious natural law or natural rights theory; for there are innumerable times and places where it is physically impossible to provide three square meals for all, or even for the majority, of the population. Hence this cannot be set forth as some kind of "natural right." On the other hand, consider the universal status of the ethic of liberty, and of the natural right of person and property that obtains under such an ethic. For every person, at any time or place, can be covered by the basic rules: ownership of one's own self, ownership of the previously unused resources which one has occupied and transformed; and ownership of all titles derived from that basic ownership—either through voluntary exchanges or voluntary gifts. These rules—which we might call the "rules of natural ownership"—can clearly be applied, and such ownership defended, regardless of the time or place, and regardless of the economic attainments of the society. It is impossible for any other social system to qualify as universal natural law; for if there is any coercive *rule* by one person or group over another (and *all* rule partakes of such hegemony), then it is impossible to apply the same rule for all; only a rulerless, purely libertarian world can fulfill the qualifications of natural rights and natural law, or, more important, can fulfill the conditions of a universal ethic for all mankind.

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[1] (#_ftnref1) On the economic analysis of all this, see Murray N. Rothbard, *Man, Economy, and State* (Princeton, N.J.: D. Van Nostrand, 1962), chap. 2.

[2] (#_ftnref2) That capital goods reduce back to land and labor as original factors is a fundamental insight of the Austrian School of economics. In particular, see Eugen von Böhm-Bawerk, *The Positive Theory of Capital*, vol. 2 of *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959).

[3] (#_ftnref3) In technical economic terms, the laborers, by choosing to take their money in advance of sale, earn the "discounted marginal value product" of their labor-the discount being the value which the laborers achieve by getting their money

now instead of later. The capitalists, by advancing money now and relieving the laborers of the burden of waiting until later, earn the discount for "time-preference"; the farsighted ones also earn the reward for being better at forecasting the future under conditions of uncertainty, in the form of "pure profits." The less farsighted entrepreneurs suffer losses for poor handling of decisions under uncertainty. See Rothbard, *Man, Economy, and State*, passim.

[4] (#_ftnref4) We shall see later that this definition of freedom or liberty must be clarified to read "absence of molestation of a man's just property," with justice implying, once again, ownership title to one's own self, to one's own transformed property, and to the fruits of voluntary exchanges built upon them.

[5] (#_ftnref5) For a critique of the "freedom to steal or assault" argument against the libertarian position, see Murray N. Rothbard, *Power and Market*, 2nd ed. (Kansas City: Sheed Andrews and McMeel, 1977), p. 242.

[6] (#_ftnref6) On the requirement that ethical laws be universally binding, see R.M. Hare, *The Language of Morals* (Oxford: Clarendon Press, 1952), p. 162; Marcus Singer, *Generalization in Ethics* (New York: Knopf, 1961), pp. 13-33.

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