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# Brodbeck on Bentham

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### Foreword

In The Rule of Money [0] I attempted to describe the main arguments in Karl-Heinz Brodbeck [1]'s recent book about money. He also deals at length there with the phenomenon of interest and this discussion piece adapts his chapter on Jeremy Bentham's *Defence of Usury*. The nub of Brodbeck's account of the social and psychological structure of money, which is key to his critique, is as follows.

The social institution of money, as all social institutions, becomes part of the experience of those who belong to it. People who belong to an institution are not only affected externally but can be expected to exhibit the attitudes and patterns of thought that justify and support their membership. The 'money-subject', to coin a term used below, and for which there is no satisfactory English word, is a person whose thinking takes place within a conceptual framework of monetary calculation and analogies of it.

Money has become the universally accepted institution in which goods and services are exchanged. Almost all other institutions exist within and to a significant degree are affected by it. Money and its concomitant thinking, therefore, have extraordinary reach and power. Since money is a unit of calculation and exchange with no inherent qualities of its own, the only interesting attribute of money is its quantity. Consequently the only *emotion* related to money is the desire to get more or avoid less, which we call greed.

### Bentham's *Defence of Usury*

Bentham's *Defence of Usury*, published in 1787, institutionalises greed and gives it the intellectual form it has today. It is hard to exaggerate the importance of this work. August 1785 saw Bentham in Russia visiting his brother. He discovered that the British government proposed to set a legal maximum rate of interest and in a series of letters, the best known of which was to Adam Smith, he set out a defence of usury. Smith, it seems, was impressed by Bentham's arguments, and contemplated referring to them in a new edition of his *Wealth of Nations*.

Before considering Bentham's theory of interest, let's look at his underlying ethical system, Utilitarianism.

Bentham destroys morality's control over the passions by making morality a matter of computation. As entrepreneurs gradually subordinated production processes to considerations of cost (and in the calculated management of natural systems laid the foundations of modern natural science), so modes of judgment reflecting the structure of money colonised the human mind. The money-subject focuses his passions into just one - greed - and so makes human subjectivity a matter of reckoning. It was Bentham who took this final step and put calculus in the place of reflection. Using an unexplained unit of measure called 'pleasure and pain,' the psyche's accountant ranks everything - actions, perceptions, and emotions - as benefit or cost. This calculation Bentham calls 'ethics.'

Whilst utilitarianism has taken many forms, from Mill through Sidgwick to Rawls, its real foundation - the money-subject's book-keeping interpreted as a spiritual process - has rarely been examined. Economics, the study of profit and loss measured by a fictional unit of account, easily adopted Bentham's superficial shrewdness wholesale. The circular, reflexive character of money mirrors that strange entity called 'utility,' by which things obtained are weighed against the 'disutility' of the effort to acquire them.

Bentham acknowledges no tension between sympathy and self-interest. He discards classical value-of-labour ideas and states that the value of a thing 'is wholly dependent and proportional to its value in use.' Aristotle's *eudaemonia* and its complex relationships with virtue and objective reality Bentham translates into 'the pursuit of happiness' and says that 'this tendency in every action is what we call utility.' Human beings aim to maximise the sum of utility, which is the difference between the sum of the pleasures and the sum of the pains experienced by the individual - what Bentham calls the 'happiness-numeration principle.'

At first sight utility looks like a new concept, but Bentham reveals its origin in *An Introduction to the Principles of Morals and Legislation*, where he says human motivation is '1. The *internal* perception of any individual lot of pleasure and pain, the expectation of which is looked upon as calculated to determine you to act in such or such a manner; as the pleasure of acquiring such a sum of money, the pain of exerting yourself on such an occasion, and so forth: or, 2. Any *external* event, the happening whereof is regarded as having a tendency to bring about the perception of such pleasure or such pain; for instance, the coming up of a lottery ticket, by which the possession of the money devolves you.'

Thus the only principle Bentham acknowledges is that of calculation. Every particle of wealth is a particle of human happiness. Add them together to get the sum of happiness. Consequently governments need only bother about maximising this sum. Happiness is formally equivalent to the money value of goods.

This system disdains metaphysics - a personal reflection about the categories in which one thinks and an attempt to make them conceptually clear. The money-subject replaces self-reflection with calculation. The substitution is called 'science,' its ethics is utilitarianism, its cultural form is English - in essence English bourgeois mercantilism - and its classical author Jeremy Bentham.

For Bentham, moral statements are only 'clouds which overhang the relation between cause and effect in the field of morals,' a relationship based on calculation. Behind the definitions, the invention of utility, a kind of happiness that can simply be added up, and all the calculations that still perplex economists today, is just one simple principle: 'Money is the instrument of measuring the quantity of pain or pleasure. Those who are not satisfied with the accuracy of this instrument must find out some other that shall be more accurate, or bid adieu to politics and morals.

Any idea that money might be a form of social interaction and the greed that finds expression in usury a *vice* to be opposed by morality Bentham simply excludes. Money would only be replaced as the unit of calculation if one discovered a *better* money. The money-subject is trapped by his own narrow logic, which he fatuously equates to human nature. With psychology and ethical reflection turned into a mechanical calculation, greed becomes the yardstick of reason.

Now Smith expected competition and liberal laws to limit the scope of usury. He wrote of its evils and believed that it consumed a significant part of an enterprise's profits. His concerns, however, are not about usury as such: he does not take a moral position against it, but only calculates that it will not achieve its purpose.

Bentham easily showed that Smith's position was illogical. If a society based on free exchange and monetary flows was a 'natural system of freedom,' then every legal restriction of this freedom should be condemned. If one should be free to sell or buy any goods at a profit, then one should also be free to offer money on any terms.

But the argument is specious. Quite aside from the crude assertion that 'freedom' is a natural state, Bentham makes no distinction between producer-consumer transactions whose main purpose is the exchange of goods for use mediated by money, the transactions of middle-men exchanging money mediated by goods, or financial transactions where money is exchanged only for money. Each of these has a different social content and purpose.

Goods-money-goods transactions and money-money transactions are *fundamentally* different. The distinction is between means and ends, but it is lost on the money-subject, who recognises only more and less. Had Smith not already adopted the framework of money-thinking, he would not have been so impressed by Bentham's critique.

Bentham goes further. Perhaps his most important contribution to economics is the attempt to establish that usury is not only harmless, but beneficial. Similar ideas later appeared in Fichte, Thünen, Marx, and especially Schumpeter. They can be summarised as follows: Usury is permitted and even desirable, because interest makes *new ventures* possible and so encourages technical progress and economic development. This presumes with Smith that progress is the norm, and although there is no clear account of how innovation drives progress, what is really going on here is an attempt to establish the origin of interest.

Contemporary laws limiting interest presumed that 'usury' was the taking of *excessive* interest, not, as originally, the taking of *any* interest. From this re-definition Bentham showed that there was no reason to limit interest at one rate rather than at another. Why? Smith had argued that the high rates of interest offered by 'prodigals and projectors' - what we might now call start-up entrepreneurs - should be restricted because they lead capital to be misallocated and lost in all manner of useless projects. But the cost of an innovation is not causally determined, because we cannot know in advance which projects will succeed, and the high interest paid by successful projects includes the cost of the failed ones. Smith did, however, understand that someone who introduces a new technology may, if it succeeds, earn high profits which competition will over time reduce. Bentham countered that it was then senseless to suggest that returns should be limited that would anyway be reduced by competition.

Smith thought that human beings were driven by passions of self-interest which free competition would naturally restrain. Bentham then turns this 'freedom' argument on its head. Why should there be *any* control of human actions motivated by passion? Further, how could a government ever obtain the knowledge that would enable it to set the right limits to human appetite? The individual engaged in competition has perfect knowledge of everything that concerns him; the government sees only the novelty or riskiness of the commercial venture that it seeks to restrain. The argument reappears in Hayekian neo-liberalism.

These strands come together in *Defence of Usury*. First, as later economists, Bentham adopts a 'time-value' account of interest - that interest represents the exchange of present for future money. Secondly, interest also contains a risk factor, and high rates are justified in the case of projectors who take high risks. And thirdly, the high profits earned by projectors allow them to pay higher interest rates. In fact, it is in their interests (no pun intended!) to accept these rates, and no government should constrain them.

Though Bentham exhibits the naïvest bourgeois preconceptions of property and money (and does not explain where time-value or risk preferences come from), he does put his finger on the origin of interest in one respect: only continual innovation makes possible the profits from which high interest can be extracted. Entrepreneurial innovation and the organised production, markets and competition that surround it, are the key to making money out of money.

Like Smith, Bentham says that the natural state of society is free competition between individuals whose behaviour is thereby moderated. But no such natural force sets interest rates. The 'prodigals and projectors,' motivated by a desire to enrich themselves, take ever higher risks. If, as Bentham says, a high return is just as likely as a high loss (because the outcome of projects is a matter of chance), how the interest rate remains positive and why the overwhelming majority of capitalist enterprise is profitable remains a puzzle.

The answer is that the framework of money-thinking that governs markets ensures that only those innovations are selected and brought into competition that enable money to be made. We have to see that calculation serves not to select the 'best' projects, but to select those that make the most money.

Means and ends have been interchanged.

During the nineteenth century this logic of greed came to dominate policy and legislation and everywhere sought out profitable objects on which to slake its thirst. The doctrine of free contract, which Bentham had used in defending usury against Smith, was propagated with ruthless consistency. Anyone who wants to trade needs access to the market. Since nothing matters beyond the calculation that goes on *in* markets, all who either intellectually do not share that conceptual model or just as a matter of fact lack the means to pay the entrance fee are excluded.

Let's look at an illustration of this. Suppose there arises a food shortage, perhaps because of a failed harvest or bad weather. The victims typically lack two things: the food and the money to buy it. On Smith's argument, if governments were to prevent food prices from rising, either the sellers would hoard or they would sell out immediately so that stocks would be used up before the next harvest. Moral considerations suggesting state intervention in the market are, Smith believes, either vacuous or would fail to achieve their purpose, the alleviation of hunger.

The assertion that if the state controlled prices then markets would be cleared out and the hunger made worse is absurd. Consumers might buy grain stocks which they themselves could distribute, rather than remain shut out by high prices and without grain altogether. And like so many liberal economists since, Smith overlooks the extent to which the merchants' greed stifles the moral impetus to provide grain to the hungry. He also makes no mention of speculation: merchants who expect higher demand after a poor harvest will hoard grain to profit from speculatively increased prices. As Amartya Sen [2] later so powerfully argued, the poorest lose access to the means of their own relief. It is just another case of usurious behaviour.

Now Sen's remedy for this is to give money to the poor, so that they can pay the higher prices. But this is problematic. First, the money so spent will not always reach the producers and stimulate higher production. Where the producers are generally small-scale, it is the merchants, banks, and speculators who benefit. Secondly, the money to do this has to be printed or obtained through taxes - either way socialising the cost of relieving the afflicted. That sounds fine if the money is put into production, but it is not at all fine if it pays the price gougers - and teaches them that speculation works. It is good to help the starving to buy food, but it is bad to reward profiteering.

The point is that ultimately Sen's solution is still a *calculation* that does not tackle the basic immorality of the behaviour. This could be addressed *at source* and certain actions simply made punishable in law. Objections that this might create unwanted pricing side-effects need to be looked at very closely. Is this more utilitarianism by the back door, or are we really flagging up serious moral choices? The answer will not be clear-cut and it will be necessary to look at the facts.

If the response to increased knife-point muggings on our streets were to distribute vouchers that people would hand the perpetrators so they would move on, on the grounds that no one should be restrained from robbing his fellow citizens, the public would rightly be outraged. Yet the Benthamite market liberalism that rejects interference in price or supply levels as *contrary to freedom* and positively encourages mugging of whole countries via financial and commodity markets is defended as a fundamental principle of modern society.

The free exercise of greed in usury was of great importance to early British economists and has remained a core tenet of mainstream economics ever since. The disastrous real-world effects of this policy are clearly set out by writers such as Amartya Sen and Mike Davis, whose *Late Victorian Holocausts* [3] describes the impact of free-market principles in nineteenth century India. The speculative manipulation that greed motivates and that leads to human and natural disasters could be avoided by restraining those who engage in such desk-bound atrocities. This is the moral core of the objection to usury.

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