COMMUNICATIONS

Silvio Gesell's Monetary Theory of Social Reform

In spite of the attention which has been given to the writings of Silvio Gesell,[1] the stamped money reformer, the unifying basis of his work has, I think, been neither clearly stated nor satisfactorily elaborated. The relation between the theoretical and practical aspects of his analysis has been either ignored, misunderstood or distorted.

Gesell's objective as a social reformer was to attack *rentier* capitalism and to substitute in its place an interest-free society. To fortify his reform position Gesell developed a system of economic theory in which he tried to demonstrate that the nonutilization of resources and the presence of nonfunctional income are the inevitable accompaniments of prevailing financial institutions. The most important single phase of his theory as a whole is his theory of interest. In its critical aspect this theory represents an attempt to show that, in a system of conventional money, interest income is a payment to prevent the hoarding of money. In its positive aspect the theory is an attempt to show that the introduction of stamped money would eliminate "basic interest" and thus pave the way to an interest-free economy. The purpose of this note is to show that Gesell's theory in general and his theory of basic interest in particular represent an argument for his stamped money proposal. This may best be shown by indicating that the practical insight which led Gesell to propose a tax on money was chronologically as well as logically prior to his theoretical system.

That the practical aspect of Gesell's thought was chronologically prior is not difficult to demonstrate. In 1886, at the age of twenty-four, Gesell migrated from Europe to the Argentine to engage in foreign trade and small-scale manufacturing. There he witnessed one of the most speculative episodes in the history of modern capitalist development. The great boom from 1885 to 1890 preceded a long and severe depression which lasted for the duration of Gesell's stay in the South American republic. The frustration of industrial activity produced a strong current of resentment against the speculating financiers, brokers, stock jobbers and mortgagees. As one whose interests were directly affected, and as one whose indignation was aroused by this financial debauchery, Gesell participated actively in the opposition to the group interests which appeared to be responsible for the chaotic state of

[1] *Cf.* J. M. Keynes, *General Theory of Employment, Interest and Money* (New York: Harcourt Brace, 1936), pp. 32, 353-58, 379; Irving Fisher, *Stamp Scrip* (New York: Adelphi, 1933), pp. 60-68, and *Stable Money* (New York: Adelphi, 1934), esp. pp. 141-44; Margaret Myers, *Monetary Theories of Social Reform* (New York: Columbia Univ. Press, 1940), chap. II; H. T. N. Gaitskill "Four Monetary Heretics," in *What Everybody Wants to Know About Money* (New York: Knopf, 1933), G. D. H. Cole, editor, chap. VIII; Arthur O. Dahlberg, *When Capital Goes on Strike* (New York: Harper, 1938); Franz Haber, *Untersuchungen über Irrtuemer Moderner Geldverbesserer* (Jena: Fischer, 1926); Hans Langelütke, *Tauschbank und Schwundgeld als Wege zur Zinslosen Wirtschaft* (Jena: Fischer, 1925).

affairs. His first publication, *Die Reformation im Muenzwesen als Bruecke zum Sozialen Staat*,[2] contained the kernel of his ideas on monetary policy. Between 1891 and 1898, Gesell published five other works on monetary policy,[3] but nothing specifically on monetary or general economic theory. These were the formative years of his career.

When Gesell returned to Europe in 1900 to reside in Switzerland and Germany, his practical reform proposals had already been worked out and published in all their essentials. The formulation of his theory came later. In 1911 he published *Die neue Lehre vom Geld und Zins*, which formed the theoretical basis for his system of social reform.[4]

A more detailed discussion is needed to indicate the logical, as distinguished from the chronological, relation of Gesell's program to his economic theory: first, because it has been the source of more misinterpretation of his position, and second, because of the somewhat more complicated nature of the problem. Keynes, for example, has reversed the relation between Gesell's theory and program. In discussing Gesell's theory of interest, Keynes says Gesell "carried his theory far enough to lead him . . . to the famous prescription of 'stamped' money."[5] Keynes conveys the impression that Gesell arrived at his practical suggestion in spite of a "great defect" in his theory, whereas it would be more accurate to say that Gesell's theory is not, in some important respects, an adequate explanation of his practical suggestion. His theory is a refinement of his insight that money should be forced to circulate by means of a periodic tax which would offset the preference of wealth owners for "hoarding" money rather than spending it for some form of consumable or productive wealth.

Gesell's contention that interest is a payment to prevent the "hoarding" of money classes his interest theory with the "exploitation" doctrines of other socialists. He regards the share of total social income represented by interest as a deduction from the income created by laborers, including industrial capitalists. His theory of interest is not, however, the same as the exploitation theory of Marx. Gesell's position is both anti-classical and anti-Marxian. Although he avowed himself a socialist and professed to be attacking capitalism as a whole, his anti-capitalistic position must be interpreted in terms of his definition of capitalism as "the interest exploiting system."[6] In this particular

[2] Buenos Aires, 1891.

[3] *Nervus Rerum, Fortsetzung zur Reformation im Muenzwesen* (Buenos Aires, 1891); *Die Verstaatlichung des Geldes* (Buenos Aires, 1892); *El Sistema Monetario Argentino, Sus Ventajas y su Perfectionamento* (Buenos Aires, 1893); *Die Anpassung des Geldes an die Bedürfnisse des modernen Verkehrs* (Buenos Aires, 1897); and *La Cuestion Monetaria Argentina* (Buenos Aires, 1897).

[4] This is incorporated in *Die Natuerliche Wirtschaftsordnung,* which has been translated by Philip Pye into English from the sixth German edition as *The Natural Economic Order* (San Antonio: Free Economy Publishing Co., 1936), in two parts, "Money Part," and "Land Part." References cited below are to the "Money Part."

[5] *General Theory,* pp. 356-57.

[6] Gesell's more technical definition of capitalism is, "An economic condition in which the demand for loan-money and real capital exceeds the supply and therefore gives rise to interest." *Natural Economic Order,* p. 110.

connection Gesell's position is similar to that of Gottfried Feder, who in 1923 was appointed by Hitler as the final judge of all doctrinal questions of the National Socialist Party. In Hitler's famous list of twenty-five points, one of the two points in bold-faced print calls for the "Brechung der Zinsknechtschaft," *i.e.*, for the abolition of "interest slavery."[7] Although this anti-finance capital outlook is significant, care must be taken not to identify the liberal, humanitarian premises of Gesell's program with the fundamentally different totalitarian premises of the Nazi party.

In order to explain how unemployment, crises and unearned income could be remedied, Gesell employs a threefold classification of interest rates: the basic rate (a theoretical rate), the rate of return to real capital (an estimated rate), and the loan rate (a contractual rate). Basic interest is described as a purely monetary phenomenon which has nothing to do with time-preference, waiting, or the so-called "productivity" of capital. It does not represent anything which exists in the real world, or at least there are no direct outward manifestations of its existence. Gesell says, for example, "Basic interest has up to the present escaped observation because it was concealed behind its offspring, ordinary interest upon loan-money. . . . Basic interest is a unique phenomenon which must be considered by itself; it is a fundamental economic conception."[8] Attempts to apply the test of correspondence between the concept "basic interest" and the object signified by it are certain to yield negative results because there is no signification of object. The concept has meaning, but there is no question of its (immediate) truth or falsity. There can be no appeal to facts on this level of analysis.

Gesell attempts to clarify "basic interest" by contrasting it with the "rate of return on real capital," *i.e.*, with the hire price paid to the owners of assets other than money. In comparing this rate with the basic rate, he hastens to add: "We ought to cease designating two such fundamentally different things by the same word, interest."[9] This is the reference of Keynes's statement that Gesell distinguishes clearly between the rate of interest and the marginal efficiency of capital.[10]

This same distinction between basic interest and interest on real capital is also used to contrast the declining rate of return on real capital assets with the constant rate of return on money. In this way Gesell points out that it is the money rate of interest which checks accumulation and impedes production. The accumulation of capital assets in no way reduces the independently determined money rate of interest. On the other hand, the accumulation of capital assets does lower the rate of return on real capital. When the latter falls below the basic (money) rate, accumulation ceases because it is now more profitable to hold money than to invest. This forces those who need money as a medium of exchange to pay the (now) higher basic rate. This basic rate, according to Gesell, corresponds to the "difference of efficiency between

[7] Gottfried Feder, *Hitler's Official Programme* (London: Allen and Unwin, 1934), p. 40.

[8] *Natural Economic Order,* pp. 265-66. Gesell's concept "basic interest" is similar to Keynes's "own-rate" of interest on money. *Cf. General Theory,* chap. 17.

[9] *Natural Economic Order,* p. 263.

[10] *General Theory,* p. 355.

money and the substitutes for money (bills of exchange, barter and primitive production) as media of exchange."[11] If it were not that money has a rate of interest of its own (basic rate), accumulation would continue without interruption and the rate of return on real capital would fall and soon become zero.[12]

Gesell did not contend that the introduction of stamped money would cause interest on loans to disappear immediately.[13] His explanation of this is facilitated by the distinction between loan interest and basic interest. Loan interest is used in the ordinary sense, referring to the amount of money paid by borrowers to the lenders of liquid funds. According to Gesell, the loan rate must always equal the rate of return on real capital assets, whether the loan be made in conventional money or stamped money. Loans contracted in stamped money will bear (loan) interest as long as the demand for loan capital exceeds the supply at a zero loan rate.[14] A zero loan rate must await the day when unimpeded accumulation causes capital assets to lose their scarcity value.

In saying that basic interest would disappear with the introduction of stamped money, Gesell means that the consequences which flow from the use of conventional money would be eliminated and processes set in motion which *in time* would reduce the loan rate and the real rate to zero. When this has come about, interest income will disappear, and *rentier* capitalism will be at an end.

In this respect Gesell's ideas on long-run social reform are closely analogous to Keynes's "euthanasia of the *rentier*."[15] The secular decline in the marginal efficiency of capital is another expression for Gesell's long-term reduction in the rate of return on real capital. Keynes tells us he believes that, within a period of a generation or two, unchecked accumulation would make capital assets so abundant that they would cease to yield a return in excess of their cost.[16] Both Keynes and Gesell maintain that pure interest can be made to disappear without socializing the instruments of production. In the new society individuals would still be free to accumulate, but their wealth would not grow automatically through interest accruals. Nevertheless, skilled risk takers would be free to venture their capital in new and uncertain enterprises, and if successful, would get a return in excess of their original investments. Thus the advantages of individual initiative and enterprise would be retained, while nonfunctional income and other undesirable features of the capitalist system would disappear.

The immediately significant difference arising from the substitution of stamped money for conventional forms is that all resources would be continuously employed. Basic interest would not exist as a barrier frustrating new capital formation. The "natural" forces of competitive production would adjust to a level of output at which resources would be fully employed. This

[11] *Natural Economic Order,* p. 263.

[12] In the case of naturally scarce factors, *i.e.,* land, Gesell advocated nationalization.

[13] *Natural Economic Order,* p. 262.

[14] *Loc. cit.*

[15] *General Theory,* pp. 221, 376.

[16] *General Theory,* pp. 220, 377.

is the meaning, in terms of practical consequences, of Gesell's distinction between basic and loan interest.

Thus, the peculiarity of Gesell's position as a theorist is to be discovered in his attitude toward social reform. Only by referring to his general position as a reformer can his theory be understood. The leading concept, basic interest, takes on meaning in terms of the modified behavior of the economic system which Gesell anticipated would follow from the introduction of stamped money. In some important respects his analysis is not fully developed, but in general the pattern is clear. Gesell's theory is primarily an argument for his program.

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War Financing and the Distribution of Income[1]

It is commonly asserted that one advantage of borrowing over taxation in the present juncture is that taxes enacted now will distribute the burden less equitably than would later peacetime taxes collected to pay off the bonds.[2] This assertion does not seem to me at all to reach the real issues involved. It has little relevance for the distribution of the *current* war burden, and it seems as likely as not to be incorrect in viewing the distribution of income by classes over time.

It is surely well established by now, though unfortunately not yet recognized by some of our congressional leaders, that the burden of the present war effort cannot be sloughed off by this generation onto later ones, by borrowing or otherwise. Thus the argument that future peacetime taxes may be more equitably allocated than present ones is largely irrelevant for discussion of an equitable distribution of the current war burden, even assuming that future taxes actually can be more equitably distributed (which is far from certain). In considering the allocation of the burden of war financing, the real comparison must be between the distribution of the tax burden now and the bond burden now (*including the price inflation which will probably come with borrowing*), rather than between present and future taxes. And if it is true that the very low income groups lose especially from inflation—and there is considerable truth in the statement—then even the fact that the rich buy the bonds does not necessarily mean a more equitable distribution of the present burden through borrowing, since borrowing from the rich is especially likely to draw on otherwise "idle" funds and speed price inflation.

The question of the relationship of war financing and income distribution over time (as distinct from the distribution of the war burden) is a much more subtle one than has been generally recognized. It is by no means clear that the low income groups are better off if we borrow now than if we tax, *even though future taxes are assumed to be more progressive than present ones*

[1] I am indebted to Dr. R. A. Musgrave for suggestions and criticisms on this note.

[2] See, for example, J. P. Wernette, "Financing the Defense Program," *Am. Econ. Rev.*, Dec., 1941, p. 761. In accordance with common practice, I shall take "equity" to mean roughly a progressively heavier burden relative to income going up the income scale.