The Economic and Social Problem

by Michael Flürscheim

CHAPTER V.
CAPITAL, CAPITALISM AND INTEREST.

The meaning of *Capitalism* can only be understood when we reverse the general definition of the relationship between Capital and Interest, when we see in Interest the father, in Capital the progeny.

WHAT is capital? Economists are at loggerheads when asked to define this important factor of their science, and their definitions mostly differ from what is popularly understood by the word. So, for instance, may we hear every day: Brown has invested his capital in land. If this means that Brown has bought and spread manure, made fences, dug a ditch for irrigation purposes, or laid drains to desiccate the land, it agrees with the most general definition given by our economists; for Brown is using wealth (product of labor) for the production of wealth. But this is not at all what is usually understood when we speak of investments in land. If we say Brown has invested his capital in land, we generally mean that he has bought land, which henceforth is his capital. The rental income from this land becomes now the interest of Brown's capital, and the sharp division, which most economists make between land and capital, between rent and interest, is blurred together. Other economists, by adopting a definition still more in accordance with the popular conception, escape this dilemma, but fall into another. While defining as capital anything, which produces an income, and thus ceasing to make a distinction between the products of man's labor and land—the substance and surface of our globe, the Divine Creator's gift to all men—they also include under the heading of capital, human talents and skill, such as a good voice, or the gift of acting, drawing, composing, the skill of the artisan, as well as the knowledge of the professor. In this they keep in touch with the popular meaning, for we all know how often we have heard such expressions as "Patti's voice is her principal capital." or "the most valuable capital possessed by Rubinstein was his wonderful art." Unfortunately, here again we find two conceptions thrown together which to keep apart is even more important than the distinction between land and products of labor, i.e. wealth; no separation is made between capital and labor, between interest and wages. I purposely do not say profit and wages, as my business here is only with the interest component of profits. Wages of organization and supervision, the other component, fall under wages; and what remains, besides rent, is risk premium, lottery gains, amply compensated by losses, as we have seen in the previous chapter; or the tribute levied by monopoly, which a fundamental social reform will see disappear with its source. I say this with a full knowledge of Marx's famous "Mehrwerth" (surplus value) theory, which finds the origin of profit in the power of the employer owning the means of production to exact unpaid working time. A remarkable discovery consisting in the not only worthless but absolutely nonsensical substitution of a time profit to a product or money profit! At all events neither time nor product could ever have been exacted on free soil under free exchange. I hope I need not explain that any income received by a person from his work falls under the category of wages, whether he works on his own account or for another individual who pays him a fixed or variable amount, whether it is physical or intellectual work, whether it is done by the carpenter's hands or the dancing master's feet, the throat of the singer, the resisting powers of the professional faster's organism, or the thinker's brain.

As it seems impossible to give a generally recognized definition of Capital in the same way in which we can define what is meant by a horse, a chair, or a house, we must formulate a definition which is useful and at the same time fairly compatible with popular meaning. I consequently define *Capital as property, which can procure an income without any work on the part of its owner.*

This definition comes also nearest to the etymological derivation of the word from *kephalaion*, caput, the head, the principal, as distinguished from the expected interest or usury, the unessential. In this sense Patti's larnyx is not capital, as it cannot be used to produce an income without her own work, nor is the skill of a worker of any kind his capital; whereas land is capital, as it produces an income without the work of its owner.

I now proceed to give my reasons for considering this definition more useful than that mostly adopted, and often called the orthodox one.

I. The orthodox definition cannot serve any practical purpose whatever, for it regards as capital any kind of wealth used for reproductive purposes, and thus creates—not a category of definite objects—but one of temporary and changing uses. There is not a single kind of wealth, which could not be simple wealth at one moment and capital the next. The piano in my drawing-room, until now used only for my pleasure, was simple wealth in the morning, but became capital the moment I gave my first paid music lesson on it in the afternoon. Bread bought for my table is wealth, but changes into capital with my change of mind, which destines it to serve as provision in a fishing expedition. My horse was wealth as long as I used him merely to take my daily exercise on his back, but has been capital since I hired him out for money. On the other hand, even a machine may change into simple wealth from having been capital if it is presented to a museum. Of what practical use can it possibly be to create a special division of wealth with such flowing boundary lines?

2. The orthodox definition is not only useless, but positively dangerous, because, instead of bringing light into an important problem, it merely makes matters more confused.

When an orator or writer has to reply to a socialist's attack upon capital as the oppressor of labor, he points to what orthodox economy calls capital, and speaks of our wonderful progress due to this capital, i.e., to our improved means of production and distribution; whereas his antagonist thinks of Government bonds, of land monopoly, of mining rights, of all kinds of tribute-claims selling at the stock exchange for certain amounts, and not at all falling under the orthodox definition of capital, though representing that capital which people principally have in view when they use the term. It is here that precision is of the utmost importance. It can by itself produce neither good nor harm whether we call a horse capital or mere wealth; the animal will not pull one ounce more weight, nor will a violin change its quality, whether it is wealth because we only use it for our amusement, or whether it changes into capital when we play on it for pay in an orchestra. But it is of great consequence to waive aside with a Podsnapian gesture the dangerous tribute-claims as not being capital, fixing our hostile gaze exclusively on the most harmless and even useful objects in the world—the means of production. We can better understand the fatal effect which such a classification must exercise upon an exact recognition of the social problem since we have realized in Chapters I and IV that the means of production would be far more abundant, and would be freely at the disposal of labor, were it not for that other kind of capital ignored by the panegyrist of the tool capital. We have recognized how this tribute capital is the greatest obstacle to the production of wealth by impeding exchange and consequently production through a reduction of the available money and the credit vehicles.

My own definition makes no distinction between the chair on which I take a rest and the same chair when I sit on it to write something by which I gain my daily bread, but it excludes the means of production where they are at the free disposal of honest and solvent workers, and includes them where they are used as an instrument of exploitation. The substitution of the steam-plow for the crooked stick with which the savage tickles the soil, is certainly very beneficial; but paramount for the masses of workers is the question: Who owns the plow? We certainly can produce more with the steam-plow than with the stick, but the stick was owned by the savage, together with the soil cultivated by it, while the steam-plow and the land on which it works, belong to an exploiter. Some clearheaded men—Ruskin and Leo Tolstoy, for instance—have come to the conclusion that the advantage is not so unquestionably with the steam plow as many economists pretend; and that the question of ownership, of the free use of the means of production deserves as much consideration as that of their perfection.

3. My definition of capital alone legitimates its derivation: Capitalism, i.e., the reign of capital as a means of exploitation. The increasing amount of machinery required for modern production, by itself cannot create and constitute capitalism; for even the socialistic state would not renounce technic progress. In fact, socialists expect from freedom a much more extensive use of machinery in the arts of production than has ever been reached under the system of exploitation.

We shall presently see that the productivity of machinery is not the cause of that main instrument of exploitation called Interest, that if it were not for the possibility of investing savings in land purchases and in a legal tender money made from certain scarce metals, capitalists would be glad to lend out their surplus free in the shape of machinery, or any other means of production to anybody supplying the work of preservation. That the owners of machinery can levy a tribute from labor, independent of their pay for the work of organization and supervision, is not a cause, but an effect of interest. The interest represented by tribute-claims based on monopoly of some sort is the father of the interest demanded and paid for the means of production produced by labor. If the root were destroyed, the tree would disappear. This root—the world's tribute-claims based on monopoly—once out of the way, through the withdrawal of the monopoly base, the workers would soon be the free owners of the means of production, and meanwhile would use all such means free of cost, which would eliminate them from the capital category of my definition. Untrammeled productive power would create new means of production to an extent hardly realizable by a generation living under the influence of the overproduction bugbear. In other words, the destruction of capital, as here defined, would, to an incredible extent, multiply capital in the orthodox economist's sense. Capital, correctly understood, is thus the archenemy of wealth-creation, and not its friend. The socialist is right when he curses it as the worst enemy of labor. With the disappearance of monopoly, capital will vanish and wealth alone remain. This wealth, whether used for consumption or for productive purposes, will be deprived of all tribute-levying power.

Though half of the wealth now figuring in our tables of national wealth will thus be destroyed, we shall be richer than ever before, because, when this branch of our so-called wealth which consists of tribute-claims, tabled according to their selling value, and which practically is an obstacle of wealth-production is out of the way, production will come up to productivity and our real national wealth will increase immeasurably. The vanished value of the land and mines, exclusive of improvements, the right of way of railroads, river crossings, telegraphs, telephones, trams, gas pipes, lighting and power wires, etc., will be more than replaced by the value of new land improvements, houses, railroads, telegraphs, etc., whose profuser creation this disappearance of monopoly will have rendered possible.

We have seen how one of the roots of the tribute-levying power, whose market value forms capital in its correct economic and popular sense, how rent retires from the capital-breeding business through land nationalization. We have now to show how Interest, that other prolific root of tribute-capital, also dies with the great reform, provided it is followed by the change in our currency laws proposed in Chapter III.

The taking of usury has been condemned by the ethical and often by the statutory laws of various nations, and only since a comparatively recent period, that of Elizabeth, has the term usury been confined to the taking of exorbitant increase, while the new term "interest" has been substituted for what before was called "moderate usury." So at least we are informed by R. G. Sillar, the indefatigable enemy of interest, who tells us that "when the first usury law was passed, it was necessary to coin a word for legal usury, and we find the word 'interest' was first used in a public document in 1623, in the Act of James I. It was most likely used privately before this, for Shylock says: 'My bargains and my wellwon thrift, which he calls interest,' and he apparently says this with a sneer."

All attacks upon interest were ineffective as long as the root of the poisonous vegetation was not touched. Finally the man of science tried to justify what was universally practiced. Only in this way can we explain the defense of interest set up by political economists: threadbare sophistries of so flimsy a fabric that custom and prejudice alone prevent every observer from seeing through them. An untutored savage would laugh at such teachings, or would think their exponents possessed by evil spirits. Try to make him understand, when he borrows one of his neighbor's horses which the other does not need, but only keeps in reserve for an emergency, that his feeding of the horse is not a full equivalent for the loan, provided the use the animal is put to does not decrease its value. Try to make him see the possibility of a claim amounting to two horses after a certain number of years, both as young and good as the original horse was when he borrowed it, and that a time may arrive when, though the borrowed horse long since went the way of all flesh, the debt to his neighbor or his heirs shall have grown to the extent of more horses than are possessed by the whole tribe. A mere savage will never succeed in seeing the possibility, not to say the justice, of such a claim; it needs a civilized man to understand the effect of compound interest, and an economist or jurist to defend the principle. And now let us see how these gentlemen go about it.

Prominent among their theories is that which ascribes to capital a certain inherent productivity, which is let with the capital, and is refunded to the lender in the shape of interest. The term 'capital' is here used in the orthodox sense of 'means of production,' but excepting land, which produces rent, there is no means of production, which will bring forth anything without being used by labor. This, by itself, would not invalidate a claim made for capital of part of the surplus which has been realized by its help; part of the surplus, for unless labor gets at least some of it, labor would have no advantage to use capital. How much of this surplus will have to go to the capitalist and how much to the worker, under free conditions, depends on supply and demand. A well-known example used by Bastiat in defense of interest represents capital by a plane and work by a carpenter. If there were only an insufficient number of planes in the world, not sufficient to supply the demand, Bastiat would be correct in maintaining that as a carpenter can produce more planed boards with the plane than he can with a more primitive tool, he would find it to his advantage to borrow the plane, though he had to give to the lender some of the surplus product due to the use of this tool. In Chapter IV., I have shown, however, that the production of tools would always outrun the demand if no artificial obstacles were in the way. In this case the supply of planes would be more than plentiful; plane-owners would have a larger stock of planes to lend or sell than there are cabinet-makers and carpenters willing to use them. Keeping these planes in stock would simply mean the gradual loss of the capital; for mould, rust, fire, inundations, earthquakes, war, robbery of any kind, cost of storage and cleaning, are all elements of depreciation; and at any time a new invention may make old patterns unsalable altogether, or salable only at a reduced price. Thus it might happen that the plane-owner would do better in letting out the plane free of cost, provided the carpenter agreed, under a sufficient guarantee for the fulfillment of the agreement, to replace the plane after a certain time by another worth as much as the borrowed plane was at the time of lending. Even if, instead of paying interest, the worker demanded a certain percentage of the service rendered by him to the plane-owner, the latter might find it to his advantage to strike the bargain. This proves simply that the interest claim is not due to the productivity of capital but to supply and demand. Unfortunately, there are artificial obstacles in the way, which prevent the unlimited supply of capital, and I shall presently show that interest takes an important place among these obstacles. We shall see that interest is partly responsible for the unnatural conditions which today put a bridle on the productivity of capital in the hands of labor; while the productivity of capital, when unfettered, kills interest, which does not exactly indicate any parental relationship between the two powers. Stranger still than the attempt to trace such relationship are the errors of those economists who consider the element of time the father of interest. In consequence of time's creative powers. As far as the products of human labor are concerned, the work of time is of a destructive, not of a creative nature. Unless new labor is continually applied, all products tend to lose in value. Even where they are relatively indestructible—as gold or platinum, for instance—they must be guarded if the owner wants to conserve them; and guarding is labor, while storage means rent besides. Exceptions, such as the ripening of crops, the growth of trees, and the increase, through breeding, of domestic animals, are only apparent, and are caused by omitting the analysis of all the economic factors at work. In the first place, the additional value is due to the labor employed. Then we have the use; of land, represented by rent in our calculations. If we also have to add interest, it is because interest is elsewhere obtainable for the capital thus invested, and consequently must be added to the price. If this capital were obtainable free of interest, the cost of timber, of crops and cattle, of old wine and brandy (mentioned specially because their higher price, due to age has been given as a proof of the interest-creating force of time), or any other product, would not exceed the cost of labor and rent. In selling, profit may be added besides, but interest forms no part of it, unless interest has to be paid for the capital employed, in which case its addition to the price is *an effect,* and *not a cause*.

There are also economists who make use of the element of time in another sense, in that of putting a higher value on the present than on the future possession of an object. They are not so wise as the well-known boy who, when told that the early bird catches the worm, replied: "So much the worse for the worm; why did it get up so soon?" He perceived both sides of the question, the bird's and the worm's side; but those gentlemen cannot see that, though the present use of something may be more valuable to one party than its future possession, the very reverse may be the case for another. For the hungry man a piece of meat today is worth more than one ready for him a week hence; but by the man with more meat on hand than he can eat within a fortnight, the taste of another's fresh meat will certainly be preferred to the haut gout of his own after a week has gone round. Whether the service rendered to him by the other party, who supplies him with fresh meat a week hence in exchange for the meat borrowed today, will be as great, greater or less in value than the service rendered by him to the hungry man who might have starved if he could not have gotten the meat at once, is not to be gauged by the individual estimation of such value, but by the assessment which the market makes on the basis of supply and demand. The wanderer who lost his way and reaches a baker's shop in a starving condition may be willing to give all his wealth for the piece of bread he buys, rather than miss it; but for all that he will have to pay only one single penny, because the market does not consider the accidental personal feelings of certain parties, but the general conditions of supply and demand. If our meat owner were the only party whom the hungry, meatless man could apply to the case might be different; but if there are plenty of others who have more meat than they want, and to whom a service is rendered by giving them fresh meat a week hence for the meat of today, the mutual value of the services may not only be equal, but less meat may be demanded in return at a later period than has been given; for even half-a-pound of fresh meat is better than ten pounds of spoiled food.

In fact, this case does not differ from that where the ready plane and one made after a certain period were in consideration. The different degree of perishableness of both merchandise is of no importance; nor is that of their utility for production. A starving carpenter is as much hampered in production as one without a plane. If I thought it worthwhile to discuss it separately, it was because some most intelligent men have not been able to get out of this special dilemma—Professor Boehm-Bawerk, for instance.

Also the source of Interest looked for in the traders' profit only leads to the element of time. Economically no difference can be found between the time spent by the merchant's bark between two ports or that spent by the grain of wheat between seeding and harvest.

The habit of seeing interest paid in the transactions of daily life has so confused economists that they cannot lift their ideas from this rut, and cannot gain a free outlook. This happened also to Henry George. He could not see how a tailor would not invariably sell a coat cheaper for cash rather than accept for it a note payable ten years later. The fact that, under present conditions, the cash received at once can be invested at interest, entirely hid from him the possibility that where such investment can not be made, and where any saver has to be content if he can invest his savings interest free, without being required to pay for the cost of preserving his capital, some good responsible customer agreeing to pay after a number of years, at a time when the money is needed, might be preferable to one who pays at once. Though I was not successful in making my friend see the case in this light, I had the satisfaction to hear him state publicly in the Manhattan Single Tax Club, New York—where one of our discussions took place in April, 1893—that if I were right in asserting that interest would disappear with private rent, all he could say was:—"So much the better." With these words he justified my attack made in "Rent, Interest and Wages," against his theory evolved in Progress and Poverty: that wages and interest rise and fall together, so that it is to the worker's benefit if interest is high.

The same force of habit is responsible for another claim often brought out and just as false: the claim that *interest is the reward of abstemiousness* and that its disappearance would stop saving. We need not enter into the question once touched by the great socialist leader, Lasalle; we need not inquire whose abstemiousness is meant, that of the capitalist or of those whom he exploits; whether the interest paid in this world of ours is not produced by the abstention of the interest-payers. Nor need we waste time in admiring the abstemiousness of our Rothschilds, Carnegies, Astors, Vanderbilts, and other interest-lords; but it might be worth our while to look a little into the second part of the wonderful thesis, the pretension that *capital production will stop if no more interest is obtainable*.

It practically means that thinking and civilized man does not possess even the provident spirit of many animals, such as the bee, the ant, the squirrel, a number of birds, etc., who save for bad times and find the reward of their abstemiousness in its product, in the accumulated stock, on which they live at the time when production has to stop temporarily. Could the bee reason, it would deem itself very happy in finding all the honey it has gathered undiminished at the time when it is required for apiarian consumption; the idea to stop saving, because no automatic increase of the store can be expected, would certainly never enter its insect head. It needs the brains of a professional economist to breed such an idea. Take, for instance, the following from the writings of Th. Mithoff, professor at the University of Gottingen: "If he (the capitalist) did not cede the use of his capital to another, he would be able to use it himself for the purposes of production or consumption. In temporarily renouncing, therefore, the use of capital in favor of others, he makes a sacrifice for which an equivalent interest is due to him. Doing away with interest would cause a great part of the capital now lent out for productive purposes to lie idle or to be used for consumptive purposes; and the growing difficulty of a paying use for capital must very soon reduce the future creation of capital. But as the prosperity and the progressive development of economic life depend on the use of capital in production—doing away with the compensation for the use of capital in the shape of a part of the undertaker's income and of interest would result in a deep and permanent retrogression of the economic development."

So many sentences, so many errors.

To begin with, capitalists only lend out their capital when they cannot put it to better use for the purposes of production in their own business. There is a limit to such use. The capacity of supervising industrial or commercial undertakings is limited even in the case of the creator of the capital, and generally much more so with his heirs. There cannot be the least doubt that if the descendants of Astor and Rothschild had to use their capital in business exclusively, and could not invest in land, bonds and similar securities, they would be ruined, as was the case with the descendants of our great merchants of centuries ago, whose funds were left in business. If our multimillionaires had to invest their wealth in this fashion, the opinion we often hear announced—that the big fortunes disperse as quickly as they were gained—might be justified. The heirs of capable businessmen are often destitute of those qualities, which made their progenitors great; and mismanagement, as well as subdivision among the heirs, would soon dispose of the ancestral accumulations.

Unfortunately, rent and interest on certain investments of a different nature have the double effect of not only securing a good income without any risk for the capital, but also of increasing the sum total of the capital much faster than the average number of heirs can diminish it, especially at the well-known low rate of family propagation of the rich. Facts have proved this. Each of the present Astors, Rothschilds, Vanderbilts, etc., is richer than was the founder of the family's fortunes—through the mere accumulative power of interest and rent.

In my first book, Auf friedlichem Wege, which appeared in 1884, long before trusts, Standard Oil and the railroad combines created multi-millionaires, I drew attention to the fearful danger which Interest was preparing for us in the quiet, almost unobserved accumulations it creates. What is New York's unearned increment, enriching the Astors; what is railroad monopoly, which built up the Vanderbilts, Harrimans, Morgans; what is the control of nature's resources, the root of the Rockefeller, Carnegie and Guggenheim fortunes, compared with the silent power of Interest, the creator of the Rothschilds? In the book above mentioned I estimated their fortune at one thousand million dollars. Since then, through the mere force of interest compounding, the thousand millions have more than doubled, have perhaps trebled. Standard Oil may be dissolved, railroads nationalized, the trusts broken up, but the quiet power, which is behind the continuous growth of the Rothschilds and other excrescences of the same nature, which increases their immense accumulations to unbelievable dimensions, with the impetus of a force of nature and the certainty of mathematics, will subsist. Interest will continue to do its destructive work until we sap its foundations.

The proverb, "three generations from shirtsleeves to shirtsleeves," has been deprived of its soothing power by well secured compound-interest.

We have already seen how pernicious such accumulations have proved to our economic development, and how the very reverse of our professor's expectations as to the blessings we owe to interest has been verified by the facts of real life.

But not only a productive use in their own business is impossible for our greatest capitalists; even self-consumption becomes almost infeasible. Balls costing half a million dollars, weddings swallowing $400,000 in 15 minutes, of which $125,000 are paid for church decorations; what, in comparison is the cost of Lucullus' or Crassus' revels reported in the annals of Rome's worst times? And yet, what are such extravagances when compared with the incomes of the parties? They marvel at the bath of Vanderbilt costing a million dollars; but the gentleman might buy a million bath every month without consuming his income. I leave entirely aside the usual moral drawn from such prodigalities in a world in which millions of persons have not enough to fence them from hunger and cold, for the worst is that our millionaires are not extravagant enough. If they consumed their incomes, the world would be better off. It is just because they save a great part of their revenues that the workers cannot find employment. It is because they have not enough appetite that others have to go without a meal. If they could wear thousands of suits at a time, thousands of poor toilers would be able to buy some clothing. If every penny of their money were wasted in palace building, the poor would be able to procure slum dwellings. It is just to their saving and investing their savings at compound interest, in connection with our land and currency systems—that we owe most of our misery, as I have already shown. That this is being recognized more widely is evinced by the following remarks of John T. Gibson in the Indianapolis News:

"A few minutes' thought will convince anyone that the industrious man who lives up to his income, and saves nothing, is at least as large a factor in the accumulation of capital as the man who saves. Suppose, for instance, that we would all start in to-morrow and narrow down our expenses to the last notch, 'cut off everything except oatmeal gruel, and make it thin at that,' with the idea of saving ourselves rich, how long would it be before we should find that, instead of being on the highroad to greater wealth and higher civilization, we should be on the back track to poverty and barbarism? There would be no demand for anything except oatmeal, and as no one could sell anything else that he happened to possess, he could not acquire the wherewith to buy oatmeal, and would have to produce it himself, or steal it, or starve. There would be no trade, no use for all our fine business blocks, nor for the railroads, nor steamboats, nor factories, nor any of the arts of civilization. The laborsaving principle of the division of labor could not be utilized except on the smallest scale in co-operative oatmeal production. Altogether we should be in a very bad way—a good deal worse off than the Indians were, for they had elbow-room and a game-preserve at their back."

If the rich spent their incomes, consumption of such immense amounts would give employment to millions who now are without work, and these millions could save, could gradually become owners of their own means of production, or could improve those now in their possession, and thus bring about a great increase of the present general production. Instead of this, we have seen how the investments of the rich, restrict the access to natural opportunities, reduce the circulation of credit money, restrict the credit building in which our commerce is carried on, and thus prevent production from keeping abreast of productive power. We cannot produce unless we consume; and the masses are bereft of their full purchasing power through the rent and interest tributes they have to pay to the rich, either directly, or indirectly by means of the tax-gatherer or the employer; while the rich, instead of consuming their share, invest it in the purchase of more well secured tribute-claims, the only paying investment in the long run; as new production is a losing business where there is not a corresponding consumption.

Thus it is not astonishing that the country, which boasts of the greatest number of millionaires, which estimates its national wealth for 1907 at no billions, must also boast of harboring the greatest misery in its cities. I am not going to indulge in statistics without an official census background. For instance, those of Charles Spahr, in The present distribution of Wealth in the United States (1900), in which the population is divided into four classes. The first consists of 125.000 families, one%, of the population, with an aggregate wealth of $32,880,000,000, or over one-half of the total national wealth of 1890, so that the remaining 99 %, of the population own less than these one %. Fifty%, own nothing at all. Seven-eighths of the population possesses only one-eighth of the national wealth. Or R. A. Dague in the Forward Movement Herald, of Los Angeles, according to whom the producers' share in the national wealth, from 62½%, in 1850 has gradually gone down, from year to year, until in 1900 it reached 10%, while the non-producers' share has risen from 37½%, to 90%. Or Senator La Folette's estimate that all lines of industry of the country now are virtually controlled by 76 men.

It is impossible to say how much truth there is in these statistics; for, unfortunately, though figures do not lie, liars write figures. This country does not possess the basis for any estimate of the distribution of wealth, such as the income and inheritance taxes, which produce valuable European statistics in this field. Yet these very European statistics prove to us that our American statisticians cannot be so very far from the truth, especially as with our greater facility of locomotion we are marching towards the abyss at a much livelier tempo than the rest of the world. Highly respected English statisticians, for instance, such as Leone Levy and Baxter, figure that the share of the English workers in 1867 amounted to 40% of the national wealth, while estimates of 1886 gave them only 20%, with a probable decrease since then.

Certainly any of the above statistics come nearer the truth than the estimate of our Director of the Census, Mr. S. N. D. North, in his letter to me of July 5, 1907, in which he says: "The relative proportion of wealth in the hands of a few cannot be, if any, greater than in 1850, or in the days of George Washington." We do not need statistical tables to recognize the enormity of the error contained in the above sentence, which will cause surprise wherever it is read. A look around us with open eyes proves sufficiently that one may be a Director of the Census and still have far less insight into the relations of the actual world than any poor laborer on the street.

I shall go on with my analysis of Professor Mithoff's lucubrations, asking the reader's pardon in thus seemingly wasting time; but, unfortunately, Professor Mithoff is not the only one who believes that demon Interest is in reality a beneficent Ceres, out of whose cornucopia the incentive to all wealth-producing industry is poured over humanity. The alternative given by the learned gentleman in the words "to lie idle" cannot pass either without a few words. I wonder how the way in which this capital would lie idle presented itself to his mind. He can hardly have been so naïf as to imagine that the rich would or even could put in a stock of gold or coins; for he probably knew that the whole gold stock of the world does not exceed five billion dollars, and that the savings of the rich in the United States alone outrun this amount more than ten-fold. And even supposing that there were gold enough to be got for the purpose, the supply of the useless stuff would keep millions busy whose consumption and savings would fertilize industry in all other departments of production. Even under this impossible supposition, the wealth accumulations of the rich would do more good than they are doing under the dominion of interest.

If not in the vaults, how then are the savings to lie idle?

Does the learned gentleman suppose that the savings are received in the shape of products of some sort? Were this so, the rich owners of these products would have to pay for their storage, and for the work required to keep the goods from deterioration. They would soon find that the best shape in which they could store their wealth would be in means of production of some sort, which the workers could utilize, and thus make self-sustaining. This certainly would not mean lying idle.

Nor could investments in land be meant, because they would bring a rental income, which means interest on the purchase capital; which cannot be called lying idle. Besides, the money paid for land as well as that spent for the other things, goes to somebody and thus circulates—does not remain idle.

The greatest error of, all we find displayed in our professor's statements is the pretension that the absence of interest would result in 'a retrogression of the economic development.' That the very contrary is the case is clearly perceived by Turgot, one of France's greatest financial authorities and economists, in his famous metaphor:

"The rate of interest[1] may be looked at as a kind of level below which all work, all culture, all industry, all trade ceases. It is like a sea spread over a vast country: the mountaintops rise over the waters, and form fertile and cultivated islands. As the sea level sinks, the declivities of the mountains, then the plains and valleys, appear, covering themselves with produce of all kinds. It is sufficient for the water to rise or fall one foot to inundate extensive shores, or to render them back to culture. It is the superabundance of capital which enlivens enterprise, and the low rate of interest is at the same time the effect and the mark of the superabundance of capital."

The most superficial glance around us will show how Turgot's beautiful picture corresponds with reality. Thousands of useful enterprises everywhere, certain to benefit humanity at large, to increase its comforts, to cause a further advance of civilization, to raise the productivity of labor many fold—enterprises which would gradually pay back the outlay they caused, remain in the state of worthless projects, for the simple reason that a certain rate of interest cannot be got out of the capital invested. The Panama Canal would have been finished long ago, a tunnel would connect England and Ireland—perhaps also America and Asia—innumerable railways and canals would evolve from the state of visionary schemes into accomplished realities. Distant mountain-lakes and streams would quench the thirst of large cities now satisfied with impurer supplies; mountains over which the stage coach now winds its tedious way would be tunnelled; valleys would be spanned by viaducts; and rivers—which now are crossed in primitive fashion—by bridges. The whole face of the world would soon present an aspect differing in its progressiveness as much from the world we know as this is in advance of that remembered by our great-grandfathers. What is in the way? Why have we to leave all this work undone? Can we not spare the labor? Can we not produce the machinery required, the raw materials needed? In a time whose chronic complaint is known under the names of over-production, want of employment and markets, commercial depression, such an answer can certainly not be accounted satisfactory. All know that no greater boon could be offered to millions than the opportunity of setting to work their productive power for the accomplishment of these and greater public works. No danger either of not finding food, clothing, shelter enough for the millions of Workers needed to do the work. There is no department of production in which we could not multiply the output if there were a paving demand. In fact, nothing stands in the way except one seemingly insuperable obstacle: Interest. The projectors may furnish ever so convincing a proof that the income from the improvement will sooner or later repay the cost, besides keeping up repairs; as long as they cannot also prove that a certain rate of interest can be depended on for the capital invested, they will preach to deaf ears.

With the disappearance of interest, these and thousands of other great works can be carried out within a comparatively short time. Innumerable inventions will come forth to diminish the amount of labor required; and they will no more be fought by trades unions, justly frightened over the prospect of a still greater scarcity of employment for their members. The field of work will then grow with working facilities. There is not a department of production and distribution where the disappearance of interest would not affect wonders. What—even if he has the capital—makes the manufacturer build a shed lasting only a few years, where a stone or concrete building would outlast generations, besides affording better conditions of health for the workers? Interest. The stone house would be cheaper in the end if it were not for the additional interest it costs, which figures up higher than the waste caused by the periodical repair or replacement of the shed. It is interest which prevents the manufacturer or merchant from keeping more stock than is absolutely necessary, and thus precludes a more perfect division of work; as, for instance, in weaving, which demands continually expensive changes of patterns on the looms, where working for a certain length of time on the same pattern will cause a too great accumulation of stock, and thus a too great interest loss. It is interest which may some day be mainly instrumental in vanquishing nations dependent on others for their food stuffs, because the fear of interest loss prevents them from storing enough cereals to last over more than a very short period. We have means to fight moisture, rats, mice and other vermin, and good conditions may preserve grain for many years; but we cannot protect it against the destructive effects of interest, which increases its cost with every passing day; so that, finally, it does not pay to keep stock, at any price, as long as we cannot destroy interest.

The disappearance of interest will take out of the way the greatest obstacle to money reform, a reform, which in its turn is one of the most powerful weapons against the interest fiend. Nothing restricts more the quantity of money which can be kept in circulation, or of free deposits in the banks, than the fear of losing interest—as we express ourselves when we either have to pay interest or miss a chance of obtaining it from others. From the poor wage-worker who carries at once to the savings bank every penny he does not absolutely require, that he may get interest, to the rich man who limits his ready money or bank account to his necessities, investing the balance as fast as he can to obtain interest—we witness a continuous restriction of the money stock held on hand. The disappearance of interest would entirely change all this, would largely increase the money stock, which could be kept in circulation or in the banks as a security for depositors.

The beneficial effect produced by the disappearance of interest would be felt everywhere, even in quarters where nobody would look for it at first sight. Who would think that it could be the most powerful means of introducing universal free trade, by making free trade what its defenders suppose it to be, but what, as I have shown, it is not by any means: fair trade? It will not prevent the payment of imports with debt certificates, but it will withdraw the self-multiplying power from this debt, which now often makes the cheapest market the dearest in the end. Debt, as has been said in the previous chapter, will then simply mean deferred payment by exportation. The delay, instead of causing loss, will only benefit the debtors who enjoy the free use of the capital in the interim.

These will be the results of interest's exit from this world of ours, not those foretold by the blind bookworm of Gottingen University, and others of his ilk. The simplest calculation should have shown him the stupidity of his prognostics, should have taught him that, instead of stimulating, interest in reality tends to diminish saving and consequently production.

If a man wants to retire on a yearly income of $500, he will save $10,000 if he can count on 5% interest, unless he buys a life annuity for even less money. The lower the rate of interest the more will he have to save, and if interest is unobtainable altogether he will have to save capital enough to last him for the balance of his life. He may have to go to an insurance company and pay in the sum corresponding to the average of years, which statistics allow him, plus cost of administration. The calculation is much simplified by the absence of interest. If he wants to insure a certain capital to his family after his death, he will have to pay the yearly premium, which corresponds to the sum, divided by the average number of years he is expected to live, according to statistics, plus a trifle for cost of administration. In either case he will have to save more than would be recjuisite in our days, where the interest obtained by the company enables it to be content with smaller payments. If a life annuity, to date from a certain age, or from invalidism, is desired, enough has to be paid in to correspond to the annuity multiplied by the number of years during which statistics promise him the enjoyment of the annuity, plus cost of administration. Whether he pays the money in by yearly installments while he is still working, or in one lump sum, will then make no difference, as interest no more enters into the calculation. At any rate, he will have to save much more for such a purpose than he would in our interest-paying world. Supposing he wants to retire at the age of fifty years, and to insure an annuity of $500 to his family, from then or his previous death up to the death of the last survivor. Let us say the number of years during which the annuity has to be paid is estimated as forty, the man will have to save something over $20,000, or at least double the amount he would need under present conditions. And even then he will have saved only for the living generation, if he wanted to commit the folly of saving also for unborn descendants, his accumulations would have to grow correspondingly, instead of needing only an insignificant increase under the interest regime. Thus much more would, be saved than in our time, and such savings would become what our present savings are wrongly supposed to be: blessings, instead of the curses they really are through their restricting effect on consumption and consequently on production. They would increase our means of production and communication, as well as all amenities of life. They would help to raise the general income and welfare. Until the saver consumes his economies they would take productive form, benefiting his fellowmen; and the world, as well, as he, would be better off than if he had consumed at once what he produced. More would have to be saved to live without work, but very much more could easily be saved in a world freed from the hampering effects of interest and the part played by its accumulations. We have seen how the creation of generations of do-nothings is by far the smallest evil resulting from such accumulations, but that the constantly increasing obstacles they oppose to the maintenance of production at the level of productive power are the very roots of the social problem of our time.

So far, I have only shown what interest is not. I have proved that it is neither the product of capital, the child of the element of time, nor the just reward of abstinence. I have made clear that, instead of stimulating production, it keeps it back. For all that, I have not yet shown its real nature and parentage. This we have now to elucidate.

Interest is a tribute due by one set of men to another. That this is its nature, that it is a tribute and not a product, is made clear by the simple fact that all men could as little live on their interest income as all could live by burgling or by taking in each others' washing. This striking illustration is due to Mr. L. H. Berens. Somebody has to pay interest, or others could not live by it. That interest is a tribute, and not a natural product of capital, time, or anything else, can also be demonstrated by simple arithmetical proofs.

Proudhon says in "Qu'est-ce-que c'est la Propriéte": 'If men, united in equality, gave to one of their number the exclusive right of property, and if this single proprietor placed with humanity a sum of 100 francs at compound interest, repayable to his successors of the twenty-fourth generation after the lapse of 600 years—this sum of 100 francs would, if invested at 5%, amount to the sum of 107,854,010,777,600 francs, a sum 2,696 times as large as the capital of France, estimated at 4,000 millions (this was written 60 years ago), or 20 times as large as the value of the whole globe with all movable and unmovable wealth. … The Fourierists, those irreconcilable enemies of equality, the partisans of which they look at as sharks, promise to satisfy all demands of capital, of work, and of talent in quadrupling production. But even if they quadrupled production, if they increased it ten-fold, hundred-fold, property (he means land and capital with their rent and interest claims, and it is to this property to which he refers in his famous: "la proprieté c'est le vol," or property is theft) by its power of accumulation and capitalization very soon would swallow products, capital, the earth and even the workers."

We know the old tale of the inventor of chess asking as his only reward that the Shah would give him a single grain of corn, which was to be put on the first square of the chess-board, and to be doubled on each successive square; which, to the surprise of the king, produced an amount larger than the treasures of his whole kingdom could buy. It is this kind of chess-game which capital is continually playing with labor. All exertions, all improvements in the methods and tools of labor, the strictest economy, the severest self-denial, are all powerless to compete with the rapidity of self-increase possessed by capital placed at compound interest, and they cannot keep up with its demands.

AN ALLEGORY.

Ages had gone by since sinful man was driven from Paradise. The curse (not unmixed with blessings—like all punishment coming from such a source), which forced man to earn his bread by the sweat of his brow, had weighed upon the race with a heavy pressure. The crime had been severely punished; mercy began to prevail. A loving angel was sent down by the Great Master, charged with the task of lightening the burden. The angel's name was Spirit of Invention. He began his work by teaching man to make useful tools out of stone, wood, metal, and other formerly worthless raw materials. He taught him to tame animals to work for him; and finally he made him master of the elements, pressing them into his service. The mountain stream rushing down to the ocean was forced to turn wheels, and to grind the flour needed for bread, or to saw the logs with which houses were built, or furniture made. The wind, the merry son of the air, had to stoop to the same work, where waterpower was not available. The curse was lightened, but not taken off; man's wants had increased with the facility of satisfying them, and work was as hard as ever. But the hour had come when full mercy was to be granted to the children of Eve. Fire offered its service. The most powerful of the elements, though it had condescended hitherto to furnish some comforts to man, as often had proved his deadly enemy. It would have wrought him even more harm if a family feud it had with water had not enabled man to make use of the mutual hate of the two to fight one with the other. Now the time had come when the unrelenting antagonism between them was to be used as a means of taking off the terrible weight of physical labor pressing upon mankind. The deadly foes were imprisoned together in bonds of iron and steel. A fearful struggle began. Water, maddened by the mighty embrace of its enemy, foaming with rage till it turned into steam, tried all its power to break loose from the iron bonds and to kill the fiery element. The angel taught man how to use the terrible power so engendered—to turn wheels, and to do all the heaviest work. Millions of iron giants were in this way pressed into his service, working for him night and day. Far down in the depths of the earth they moved their powerful arms to free the mine from destructive waters, and to lift the treasures of the deep.

Imprisoned in iron cars, they moved these with a speed exceeding that of the fleetest deer; drawing heavier weights than could the strongest elephants, or hundreds of horses. Pent up in ships, they drove them forth through the waters faster, though heavily loaded, than the best oarsman ever impelled his light craft. But this was not all.

The angel *Spirit of Invention* again waved his magical wand and millions of iron and steel goblins came forth skilled in all kinds of work; spinning, weaving, knitting, sawing, grinding, printing, sewing, shoemaking, etc., etc. They were practised in all trades, and their delicate fingers went to work with lightning speed when the iron steam giants were put behind to force them on.

It seemed that at last the golden era had come of which men had dreamed for ages past, without ever hoping to attain it. Without trouble, with almost no exertion, except that of supervision, man had it in his power to produce boundless wealth for the satisfaction of wants which, in former times, even the richest did not know or dream of. All the luxuries that art and refinement could invent were at the disposal of the poorest, if free scope was given to the wonderful giants and goblins, the number of which daily increased in never ending varieties.

It seemed, I say, that the golden time had come; but it had not come. That envious spirit, that fallen angel, Satan, who once before, in the shape of the serpent, had driven man from Paradise by seducing him to sin, from the first moment had watched the work of the beneficent angel with continually increasing disgust and anger. He knew very well that, if the plans of the Holy One succeeded, Satan's empire would be over forever. Once freed from the cares and troubles of the struggle for existence and the battle of life, man would turn to higher aims the powers God had given him. Art, science, and ethics would celebrate their greatest triumphs; more and more would man break loose from the fetters in which his higher spiritual being was held imprisoned by earthly cares, and, getting into nearer contact with the eternal source from which all spiritual life is emanating, would accomplish the great purpose for which he was created.

The state of things looked desperate. All was lost if some stop could not be put to the work of God's angel; but what was Satan to do? As he looked over the dark army of vices, sins, and follies which had done him such splendid service in past time, to see whether any one of his great warriors could take up the fight with the angel, he perceived nothing but dejected faces. They all knew that they were powerless to battle with the heavenly messenger. He despaired as he looked at that once valiant and victorious army; when, among the follies of man, he observed one little imp, who, instead of the despondent, mournful aspect all the others were wearing, looked at him in a self-conscious manner, which attracted his attention.

"What is the matter with you, Interest?" he asked the saucy imp. "You don't seem to be so dejected as your comrades are?"

"Why should I be dejected, master?" replied the spirit. "Am I not one of your favorite soldiers? Haven't I always been victorious under your august guidance? Why should I be less certain of victory now than I ever was before?"

"Alas!" answered Satan sadly, "you do not know the power of the enemy we are fighting now. You are no match for the *Spirit of Invention*.”

"Well, there will be no harm in seeing about that," answered the imp. "Suppose you allow me to try a duel with the fellow?"

"You little imp! Fight the powerful angel who is defeating all my army?" laughed Satan.

"Yes, I alone; provided, of course, you allow my son, Compound Interest, to help me."

"Are you crazy? You, with your weak little arms, want to throttle that immense army of powerful giants, and that more numerous one of wary goblins, who have filled the world by the command of the mighty angel whose brains conceived them?"

"I intend to do more than this, your majesty. I shall make them turn traitors to their duty. Instead of their being a source of blessing to mankind, I shall make them the producers of untold misery—worse than ever man suffered from thy hands. I shall make man curse them and the angel who sent them. He shall be made to consider them as the source of all his misery, and to use his best powers to fetter them and to keep them from their work by all kinds of repressive laws. He shall sigh for the good old times when machines did not yet take away the work from poor humanity!"

"You will do all this?" asked Satan, with an unbelieving smile.

"Yes, and a good deal more, if you let me have my way," answered the imp, full of self-confidence.

And Satan did let him have his way. The battle of giants began. Yes, it was a battle of giants, and yet only a game—a fight of titans, and yet only a noiseless sport in which the imp was the victor.

Angel *Spirit of Invention* at first only laughed quite heartily when he saw the being who came to fight him.

"Do you see those immense armies obeying my commands?" asked he. "Well, I have only to open the gates of my skull, and just as many more will come forward to fight you, poor little imp. You had better return to the master who sent you, and tell him that his empire is ended for ever, even if he lets loose all the soldiers of hell he com¬mands."

"There is no need for his doing that," calmly replied the imp. "I alone, together with my son. Compound Interest, whom you see peering from my pocket, can multiply our number to exceed any amount of iron and steel chaps from your empire. Look here, my friend; before we begin the fight, let us first muster our forces; and to end this business in a peaceful way, I will make you a proposal. Look at this chess-board. It seems just like any other chess-board, with sixty-four squares, but it has the peculiar quality of extending the dimensions of the squares, so as always to be large enough to accommodate all the soldiers we shall place upon them. Now, listen well to what I propose. I enter the first square with my son, and you match one of your warriors against us. We enter the second square doubled in number; you send two more warriors—and so on every succeeding square. We agree that we shall never more than double, and we further agree that when we arrive at the last square, and you have a single soldier left after occupying the same, we shall declare ourselves vanquished, and Satan with all his troops will leave this world forever. If I win, you and your army are to be at the commands of my master. Are you agreed?"

"Am I agreed!" laughed the angel, as he glanced over the untold millions of his soldiers. "Why, certainly, my friend. You had better send word to your master to pack his luggage as quick as he can."

"All right, we shall see!" said the imp, in calm, business-like tones. And so the ominous game began.

In the beginning the angel laughed, for, though twenty squares were passed, no noticeable diminution of his forces was perceptible. Demon Interest said nothing, but attended to business, quietly doubling his army on every succeeding square. At the thirtieth square the angel ceased to laugh, and a few squares farther on he had to open the gateways of his fertile brains as wide as he could, urging on his new troops with all his might. Only one field more, and he had to stop exhausted. He saw he was lost.

"I despised you, little fellow," he sighed despairingly, "and I am punished for my vanity. I see there is no use fighting against you. Demon Interest is more powerful than the *Spirit of Invention*. I am your slave. Command your servant!"

"I am only the servant of my great master," dryly replied the demon. "Here I see him coming. He will give you his orders."

And Satan gave his orders. He commanded that the angel was to continue in his work with all his troops, which were to be increased with all possible exertion, so that humanity—which did not know the nature of the antagonist it had to fight against—would always keep in fresh hope of final success when the new troops were forthcoming. But as fast as they appeared, Demon Interest was to send forth a larger army to capture the new forces, to enslave them, and—instead of their benefiting man—make them increase the slave-chains, which weigh him down.

It was a devilish thought, as could rise only in such a head. Just what gave man new hope had to be the means of deepening his misery. What to every human eye appeared an unmixed blessing proved to be the incomprehensible source of greater need. Satan had been victorious far beyond his expectations, for the consequences of the battle of life under such conditions—poverty, ignorance, crime, vice, and hopeless misery—appeared more in evidence from day to day, and there was no hope of reform, because the wise men of the world proved the impossibility of indubitable facts, reasoning that blessings could not produce misery.

I foresee the answer that all this only shows compound interest wrong, that it does not prove anything against interest proper; but an objection of this kind can hardly be maintained after one moment's reflection. What is compound interest? Is it anything else than the income from the investment of earnings of capital? In what way does the lending out of $100 paid to me as interest upon $2,000 differ from the lending of the original capital? If one is legitimate, the other is; if one is wrong, both must be wrong. This objection would not hold for a minute, and therefore the mathematical proof is furnished that in the long run labor and nature can never produce enough wealth to pay interest at current rates.

Jonathan Duncan, in The Principles of Money Demonstrated, and Bullionist Fallacies Refuted, came to the same results 60 years ago from another point of view, when he contrasts the increase of claims through interest and the increase of money in which the claims are due:

"Neither is it just to charge metallic interest on the loan of metallic money, since the metal cannot sufficiently increase, and therefore the interest can never be paid in kind. It must be commuted into labor, or the produce of labor, and infallibly leads to slavery."

Before I continue this quotation I have to intercalate, that when Duncan wrote this he did not recognize the fact, yet visible only in its embryonic state, that in an increasing measure the claims are not "commuted into labor, or the produce of labor;" that money is insisted upon, though this money practically does not exist, a fact responsible for something worse than slavery: the disdainful refusal of the slavery services, the denial of the daily bread for which they are offered.

"Suppose, for example, that England, at the present day, possessed the precious metals in coin to the amount of 28 millions, and having no paper money, were to require, as she does, increase on all loans of money at the rate of 5%, every man who had borrowed £100 ought, at the end of the year, to be possessed of £105 in coin, or he cannot pay his debt with increase. One hundred thousand such men, having borrowed 10 millions of pounds, ought, at the end of the first year, to be in possession of half a million more, and in twenty years, not reckoning compound interest, their debt, with interest, could not be paid with less than 20 millions of pounds sterling. Now, where are these additional 10 millions to be found? Not in England, certainly—nor abroad, for all other nations take increase too, and their wants are in proportion to their capital. These men, therefore, go on for twenty years paying capital, by which time the whole of the money which they borrowed has been returned to their creditors; but the principal debt has not been paid, and now cannot be; they are insolvent to that amount."

It is related that Napoleon Bonaparte, when shown an interest table, said, after some reflection: "The deadly facts herein revealed lead me to wonder that this monster Interest has not devoured the whole human race." It would have done so long ago if bankruptcy and revolution had not been counter-poisons.

Counter-poisons, of which only the second one is available, if no fundamental social reform kills demon Interest. What enabled the world to stand the game so long? The destruction of the debt through the insolvency of the debtor no more suffices; since land values and government bonds have provided securities of such extension, and reliability that the bankruptcy of the single debtor avails little, so long as others who need the land and who can be forced to pay rent and taxes take the bankrupt's place. Only national bankruptcy, to the extent of a revolution that destroys vested rights, can help; and this help is approaching with rapid steps, with every year's further addition to the accumulated interest account, to the billions which are not consumed by their owners nor offered in the market for the creation of new means of production, but are spent in the purchase of new land values, bonds and similar tribute-claims, each of which increases the already unbearable load on the people's backs.

Nothing can save us from this inevitable goal, which approaches with the infallibility of mathematical progression with the next doubling of the capitalistic chess-board, nothing but a destruction of the source of Interest, which we now proceed to find. Even here we are not on untrodden paths. So long as almost four centuries ago the great reformer, Calvin, answered the arguments of Aristotle, who thought the taking of interest unjustifiable, because money put aside cannot produce money, by saying:

"It is undoubted that money does not produce money; but with money land is bought, which produces more than the returns for the labor applied to it, and which gives a surplus income to the proprietor, after all expenses for wages and other things have been met. With money a house can be bought, bringing a rent income. Objects with which things can be bought, producing incomes by themselves, can certainly be considered as bringing incomes themselves."

If I have $100 worth of goods of any description, with which I can purchase a piece of land, bringing $5 worth of rental income, I should certainly be foolish if I lent this $100 in money, or goods of any kind to anybody unless he paid me at least $5 a year for the privilege of getting the use of my capital during that time.

Through making land an object of commerce, like boots and shoes, like watches and houses, we have given it a merchandise value; and rent has become the interest on the market price of land. Rent by itself is no tribute in the sense of an extortion; but an addition to labor's product due to the ownership of land. It becomes an extortion only where this ownership is usurped by individuals, not where it belongs to the community; where the yield goes into private pockets, instead of into the common purse. One wrong leads to others. Through allowing monopolists to usurp the common inheritance, through making the property of humanity an object of commerce, a merchandise, the income which this merchandise produces, has infected all other articles of commerce, all kinds of merchandise; for if the interest income from land values is not a tribute, but an inherent property of one merchandise, why should it not be that of all others for which land can be bought? Thus rent, through appearing in the shape of interest on land values, *became the mother and justificator of interest* on all other market values.

Not the only parent, though, for so long as we make one or two scarce products the sole legal tender, the monopolizers of these products can exact a tribute for their loan; and interest, with all its consequences, will continue to exist, in spite of common land ownership, as I have shown happening on Robinson's island in the first chapter. This also is not a new discovery; in fact, many of the enemies of interest have recognized that an inelastie money is the father of interest. The trouble only has been that reformers were usually satisfied with the finding of one parent, never supposing that there might be two of them, though such is the order of Nature. However, the parents are near relations; and this consanguinity may be responsible for the monstrosity of their offspring. The joint family name is *Monopoly*.

We have yet to take into consideration the difference existing between gross interest and interest proper, i.e. between the interest actually paid and that quota of it which remains after the risk-premium and wages of supervision are deducted, a very important difference.

For the producer and trader it matters very little at what rate bankers can get money upon good collaterals, but very much what he himself has to pay for it without such securities. And, strange as it sounds, the lower the rate at which the bank lends money upon good securities, the higher the rate often is which the producer and trader without collaterals will be forced to disburse. It may happen that when the rate of interest paid at the stock exchange is almost at zero, the ordinary producer and trader cannot obtain money on any terms, while wages are lowest. This paradox is easily solved.

We must keep in mind that wholesale business is usually not done with real money, but by means of credit; and wherever prices are falling, through the sluggishness of the market, credit is reduced; or, as it is almost impossible to place cause and effect correctly in such a case, whenever credit becomes stiffer, prices fall. At all events, effect and cause react upon each other as they usually do. Where business investments tend to become riskier, capitalists prefer to retire their money from such investments, and temporarily place it where they can dispose of it at any time, even if they have to leave it interest free in their banks. Arthur Fonda says in Honest Money (p. 109): "The accumulation of money in banks in times of depression indicates, not too much money, but a general belief that its value is rising, or a fear that it will rise—testifying, if to anything, to too little money, in fact. Men do not hold a thing that brings no income, unless they expect to profit by its rise."

The investments preferred under such conditions are government bonds, loans upon the deposit of good papers, or discounts of first-class bills of exchange. Smaller capitalists go to the savings banks and deposit the maximum permitted; often opening accounts in the name of wife, children, and other relations to get around the maximum clause. The greater demand for this class of investments raises their price, or, which means the same thing in this case, depresses the interest rate. In this way the low interest rate of these investments and the increase of the larger savings bank deposits often is the sign of a stagnancy in business, of an increasing want of employment, and absence of confidence generally. It is natural that under such conditions the risk premium rises, and that the low rate of interest at exchange is accompanied by a high rate of the interest demanded for capital required for productive purposes.

These abnormal phenomena of interest, credit and capital are generally accompanied by the decrease or disappearance of many of the small deposits, a fact now hidden because generally deposit statistics are not classified, and thus its figures are made to prove the very reverse of their real meaning, to prove prosperity instead of poverty. The excellent New Zealand Registrar-General, Mr. E. J. von Dadelszen, to whom I am indebted for his Statistics of the Colony of New Zealand for the Year 1900, gives (p. 309) the first classified savings bank statistics I ever met with. It is true they only give the accounts of the Postal Savings Bank, but this bank does seven-eighths of the New Zealand savings bank business. Even here, however, there is room for further improvement. The lowest class, not exceeding £20, ought to be further subdivided, and the average balances of each class should be given. Taking the medium figures of each class: £35 for the second "exceeding £20 and up to £50." £75 for the third of £50-100, etc., £600 for the highest, of amounts exceeding £500, and deducting the figures thus obtained from the total balance of £5,809,552, only £458,146 are left for the 142,368 depositors of the first class, or an average of £3 4s. 5d. As there were in all 197,408 depositors, this would mean that 70% of the depositors only had an average balance of £3 4s. 5d. ($16) each, while 4 million pounds sterling—two-thirds of the whole—were deposited by 19,003 people, one-tenth of the depositors, i.e. those with balances exceeding £100. But, of course, no exact calculations are possible as long as we are left without the actual average of each class.

I add the following quotation from *The Public* of Nov. 4, 1905: "Savings bank statistics as evidence of the prosperity of workingmen gets another blow through revelations in the settlement of the estate of Col. Willard Glazier, the wealthy author and lecturer. Nearly all his fortune of $135,000 was found deposited in the savings banks of more than 50 cities scattered over 15 States. In New York City alone he was a depositor in 18 savings banks. These deposits show up in warm colors through the savings bank statistics, as an indication of that improving condition of the working poor of which statistics are so full and the working poor so ignorant."

We have seen how the proposed land and currency reforms, by striking at the risk premium, tend to lessen the gulf between net and gross interest and thus only render the fall of the interest rate of advantage to the producers; because only the fall of the gross interest rate indicates the degree in which capital is accessible to them, the terms at which they can obtain it and thus increase their share of the product. Losing sight of this important point produces the error into which many economists have fallen, when they see in the lower interest rate a relative decrease of the share which capital obtains of the product. The great whitewasher of capitalism, the French economist Leroy-Beaulieu, a man of the Giffen and Atkinson type, goes so far even as to expect a growing equalization of wealth inequalities from the falling interest rate, "until a society is formed, in which the positions are more equal, activity more general and yet less over-boiling; in which it is almost impossible to form large fortunes, difficult to acquire middle ones, and easy to attain prosperity." How wonderfully true facts have confirmed this prediction of over twenty years ago! The worthy gentleman never would have uttered such nonsense if he had studied more closely the works of his celebrated countryman and fellow-economist, Frederic Bastiat, who, in his fourth letter to Proudhon, says: "In the measure in which capital increases, interest falls, but so that the total income of the capitalist increases. … So when interest falls from 5 to 4, from 4 to 3, from 3 to 2, it means that capital has increased from 100 to 200, from 200 to 400, from 400 to 800, and that the capitalist gradually has an income of 5, 8 and 12."

This is in accordance with the facts observed in everyday life, especially iii the period passed since it was written over half a century ago. The interest rate has fallen considerably, but the capital on which interest is paid has increased quite out of proportion, much faster even than Bastiat imagined. In spite of the lower interest rate, the relative share of capital, as a whole, has largely increased; that of labor has decreased.

There was a time when the rate of interest exceeded 12%, in which the worker's share in the product of his labor was much greater than now when money can be obtained at 4% or less; for the few tools which he needed belonged to him or were easily obtainable, while now the costly machinery required is out of his reach. What are his wages, brought down by competition on one side and monopoly on the other, aside of the millions paid out as dividends by the trusts? The total dividends of one single trust, the great American steel trust reached nearly one billion dollars up to the end of 1907, as much as the income of all American' wageworkers during one month of the year. Compare the relative shares in the product of the independent cabinet-maker with his simple tools of the 18th century and the wage-worker in a furniture factory of the 20th, provided with the most perfect special machinery, or that of the spinner at the hand-wheel, and the hand of a spinning factory, with its thousands of spindles.

The fall of the interest rate only proves that investment-seeking capital increases faster than profits available for interest distribution, and thus forces down the interest rate accepted by competing capitalists.

The well-known process, called watering, exemplified in Chapter II, showing how the interest rate is kept down where exceptionally large profits are made, helps to illustrate Bastiat's proposition that the share of capital is in an inverse proportion to the interest rate.

After what has been said in this chapter, it is hardly necessary to add that demon Interest will never be exorcised by legal enactments which forbid the taking of interest, so long as we leave his breeders intact: our existing land and currency laws. Signal failure has accompanied all experiments in this direction. When the canonical laws prohibited the taking of interest, in the Middle Ages, money was locked up; and, as the inevitable result, where the money monopoly is given to scarce metals, trade languished. In such a case it was a choice between the deep sea of stagnation in all intercourse produced by the blocking up of the circulating medium of exchange and the devil Interest whose enticements allured the money back from its hiding-places. The privilege of taking usury, which was conceded to the Jews in those times was not meant as a favor to them, but was the result of an actual necessity.

No direct attack against the arch enemy has ever been of any use. Only by cutting off the roots: private land ownership and the exclusive legal tender monopoly given to a money made out of the precious metals, can we kill the noxious weed. A well-known method by which the canonical laws were often circumvented illustrates this. The borrower made a bill of sale of some land to his creditor for the debt, by which the former owner became the tenant of the land whose rent represented the interest on the borrowed money. When the loan was repaid, the land reverted to the former proprietor.

Before closing this chapter I have to meet the objection that interest can only disappear completely when the foundations on which it rests are sapped in the whole world, for as long as the reforms, which insure its destruction are not carried everywhere, capital is supposed to emigrate to those countries where interest is still obtainable.

It is the threat of capital's emigration, which is so often dinned into our ears, whenever reforms that are unpalatable to our capitalists are proposed. Now let us see which capital can emigrate. That which comes under the definition of the orthodox economist? Buildings, machines, tools, stock? The buildings certainly cannot emigrate, nor can a great portion of the machines, because they would bring such a loss to their owners that no amount of interest thus obtained would compensate for it, which also holds good for the greatest part of the tools and for part of the stock, even if the other countries did not at once raise higher customs walls against such inundations of merchandise in these times of ‘overproduction.’ And what if the emigration of this kind of wealth really took place? How long would it be before the unfettered productive power of the country had produced better machines, tools and stock, of every kind and in any quantity? It is true the gold and silver, as well as large quantities of jewels, could leave, but I need not explain how little damage would be caused by such an emigration, after the thorough treatment I have given the money question.

When we come to capital of my definition, its main foundation, the land, certainly cannot leave us, but the bonds, mortgages and all other tribute-claims might emigrate.[2] The whole paper ballast of Wall Street might go abroad with or without its owners. What difference would it make? The tribute on which all this nominal wealth is founded gradually disappears with land nationalization and money reform; as we have seen in the previous chapters, and meanwhile, with the people's unfettered productive power, it is immaterial where the tribute goes. Nothing remains finally but the real wealth, which is behind all these bonds, stocks and other kinds of tribute-promising pergaments. Nothing can be claimed in the end but products of labor; and with our immense productivity such debts will be cleared oft in no time. Future savings could only be exported in the form of merchandise; and with the tremendous productive power of the reform country, especially one like the United States, a glutting of foreign markets would follow, with the result that the losses on capital account would soon surpass any possible profit on interest account, in the books of exporting capitalists.

And how long could it be before the success of the reform work in one country would force the others to follow its example? At all events, the emigration-of-capital bugbear is not the creation of a logical brain. For what else is this emigration, under currency reform, but the very thing which the very same people have all along been putting before us as the highest aim of our commercial policy: the increase of exports, the conquest of foreign markets, the very goal for whose attainment the workers have been asked to reduce their wage claims? And suddenly the fear of these foreign markets, which might all at once become too eager for our products, is put forth to defend demon Interest!

No, the foreigner will not harm us in either direction, neither by refusing, nor by compelling our shipments. Just as the wonderful extension of the home market, through economic reform, would make us independent of foreign sales, so the colossal increase of productive power must enable us to export enough merchandise to other countries to pay our debts there in no time. Interest will die in the country in which no monopoly maintains it, no matter whether in other countries the vermin still subsists for a time or not.[3]