Chapter 13

False Interest

THE BELIEF that interest is a form of robbery is, I am persuaded, largely due to a failure to discriminate between what is really capital and what is not. True interest is often confused with revenue from sources other than use of capital. In common speech, we call anyone a "capitalist" who makes money independent of labor. Further, anything received from any kind of investment is labeled interest. Before we decide whather labor and capital really are in conflict we should clear up some misconceptions that might cloud our judgment.

An enormous part of what is commonly called capital is actually land value—it is not capital at all. Rent is not the earnings of capital, and must be carefully separated from interest.

Additionally, what are properly termed "wages of superintendence" are often confused with the earnings of capital. This includes income derived from such personal qualities as skill, tact, and organizational ability.

Stocks and bonds constitute another large part of what is commonly called capital. These are not capital either—they are simply evidence of indebtedness. Always remember that nothing can be capital that is not wealth. It must consist of actual, tangible things that satisfy human desires. They can not be the spontaneous offerings of nature.

And they must fulfill our desires by themselves, directly or indirectly, but not by proxy.

Thus, a government bond is not capital—nor does it even *represent* capital. Any capital once received for it has been shot from cannons or used to keep men marching and drilling. The bond cannot represent capital that has been destroyed. It is simply a declaration that, some time in the future, the government will take, by taxation, so much wealth from the general stock then existing among the people. This it will turn over to the bondholders when the bond matures. Meanwhile, from time to time, it will take, by taxation, a certain amount to give as interest. The amount will be enough to make up whatever increase the bondholders would have received if they had kept the original capital. Immense sums are taken from the production of every modern country to pay interest on public debt. These are not the earnings or increase of capital. They are not even interest, in the strict sense of the term. They are taxes levied on labor and capital—leaving less for wages and less for true interest.

But suppose the bonds were issued for deepening a river bed or erecting a lighthouse? Or, to modify the illustration, suppose they were issued by a railroad company? These may be considered evidence of ownership of capital. But only so far as they represent real capital—existing and applied to productive uses—and not bonds issued in excess of actual capital used.

All too often, certificates are issued for two, three, or even ten times the amount of actual capital used. The excess (over what is due as interest on the real capital invested) is regularly paid out as "interest" or dividends on this fictitious amount. Large sums are also absorbed by management and never accounted for. All this is taken from the aggregate production of the community—but not for services rendered by capital.

There is another element contributing to the profits we are speaking of here. That element is monopoly.

When the king granted his minion the exclusive privilege to make gold thread, the handsome income enjoyed as a result did not arise from interest on capital invested in manufacturing. Nor did it come from the talent and skill of those who actually did the work. It came from an exclusive privilege. It was, in reality, the power to levy a tax (for private enjoyment) on all users of such thread.

Much of the profits commonly confused with earnings of capital come from a similar source. Receipts from patents granted to encourage invention are clearly attributable to this source. So are returns from monopolies created by protective tariffs under the pretense of encouraging home industry.

But there is another form of monopoly, far more general and far more insidious. The accumulation of large amounts of capital under consolidated control creates a new kind of power—essentially different from the power of increase. Increase is constructive in its nature. Power from accumulation is destructive. It is often exercised with reckless disregard, not only to industry but to the personal rights of individuals.

A railroad approaches a small town as a robber approaches his victim.* "Agree to our terms or we will bypass your town" is as effective a threat as "your money or your

* Nowadays, this could describe the way that "big-box" retail stores approach communities.

life." As robbers unite to plunder and divide the spoils, the trunk lines of railroads unite to raise rates and pool their earnings. The public is then forced to pay the cost of the whole maneuver, as the vanquished are forced to pay the cost of their own enslavement by a conquering army.

Profits properly due to the elements of risk are also frequently mislabeled interest. Some people acquire wealth by taking chances in ventures where most suffer losses. There are many such forms of speculation, especially that method of gambling known as the stock market. Nerve, judgment, and possession of capital give an advantage. Also, those skills known as the arts of the confidence man. But, just as at a gaming table, whatever one person gains someone else must lose.

Everyone knows the tyranny and greed with which capital, when concentrated in large amounts, is frequently wielded to corrupt, rob, and destroy. What I wish to call the reader's attention to here is this:

These profits should not be confused with the legitimate returns of capital as an agent of production. Any analysis will show that much of what is commonly confused with interest is really the result of the power of concentrated capital. For the most part, this should be attributed to bad legislation, blind adherence to ancient customs, and superstitious reverence for legal technicalities.

Examine the great fortunes said to exemplify the accumulative power of capital: the Rothschilds, the Vanderbilts, the Astors. They have been built up, to a greater or lesser degree, by the means we have been reviewing — not by interest. When we find the general cause that tends to concentrate wealth, and thus power, in advancing communities, we will have the solution to our problem.