

arises from the necessities of borrowers, and the tendency of the lender to take advantage of their necessities. The tendency may be quite right and proper; I am not going into the ethics of the question; but whether right or wrong, interest arises thus and in no other way.

If employment were so abundant, and labour so well paid that no one was under any necessity to borrow, interest would disappear. Every one being able to command not only the necessaries of life but its comforts by his own labour, would obtain them in that way rather than pay interest for using them before he had earned them, with the certainty of having to return them unimpaired when he *had* earned them; or if some were so improvident they would be so few, as compared with the amount of capital lying idle, that they would get the use of it for next to nothing.

But what do we mean by this capital on which interest is paid? Do we mean instruments or money? The famous law of indifference will show us.

THE LAW OF INDIFFERENCE.

This law is universally accepted, I believe, by economists. According to this law, as stated by Walker—"In regard to two portions of capital as yet uninvested, there is no reason why one should bear a higher rate of interest than the other"; and accordingly they both bear the same rate. Nothing can be clearer than that the Economist is here adopting the very meaning he repudiates; that by "Capital" he means, as the man in the street means, money and not instruments; and money not as coin but as money-power—as the bank balance or other registered claim that *commands* the coin or goods

already in existence and produced by other people, not the productive tool that helps to bring fresh coin or goods into existence. And his "Capitalist" is the mere "Fat Man" of the Socialist, who, producing nothing, supplying nothing, can live without work on the rent, interest, or dividends produced by other people. If capital means money, or if my capital happens to consist of money, then the law of indifference applies absolutely. But if my capital consists of the actual instruments of production (as most economists now and then say that it does) the law of indifference does not apply to it at all. For I must get my profit or interest out of these instruments in one or other of two ways; either by using them myself, or by lending or selling them to people who do want to use them. If I propose to use them myself, it is obviously not a matter of indifference but of the greatest consequence what these instruments consist of, and how they are to be used. "Of two portions as yet uninvested" (unused), one may bring in a much greater return than the other. It makes all the difference to one situated as I am, on a farm, in a factory, or on board ship, whether my instruments consist of ploughs, spinning machines, or ropes and sails; whether they are clumsy and antiquated, or up-to-date in all improvements; whether they are in good order or bad; whether I and my men know how to use them properly or not. The returns I shall get from this "capital" will depend entirely on the desirability of the work I undertake, on the suitability of the instruments for that work, and on my judgment in using them. It will be uncertain and variable in the highest degree. The law of indifference has no application. If on the other hand I want to make my profit, not by using these instruments myself, but by selling them or hiring them out, then, indeed, it will make no difference to me whether they are of great or of little utility, or of no utility at all; whether they consist of cutlery, which is of great utility; of toothpicks, which are of little utility; or of Hindoo idols,

which are of no utility ; so long as people want to buy or hire them. But whether people will want to buy or hire them will depend on the work they want to do, and on whether my instruments are suitable for that work ; or whether they are good or bad of their kind ; or whether they are plentiful or scarce ; in short, on a multitude of conditions which will vary so much that some of my instruments will bring me in a high return, some only a little, and some nothing at all. All depends on the demand for the particular instruments I happen to possess ; and the reason why this demand is of such importance to me is that the greater demand the more *money* they will fetch. Till I have converted my "Capital" from instruments into money, the Law of Indifference does not apply. The instruments as instruments will bring me no definite and foreseeable return for my outlay. It is uncertain what I can get for them on sale, and still more uncertain what I could get for them on hire ; most uncertain of all what I could get by use. But directly I have converted them into money, the law of indifference applies to my money in full force. For money (general purchasing power) is the same obviously all round. The purchasing power of my pound (whether embodied in a sovereign or simply recognised as a claim at the bank) is exactly the same as that of everybody else's pound. For the use of that, then, I can get exactly what everybody else can get ; the current rate of interest, according to the law of indifference. But directly I re-convert my pound into actual instruments, the law of indifference fails again, and I must take my chance of my return.

The law of indifference, in short, applies solely to money ; meaning by that word, remember, always money in the ordinary business sense of coin, paper, balance to credit, anything which represents a negotiable claim or general power of commanding goods and services ; money power, in short.

You may say that what I really want at bottom is goods, and

not money. But that is not what I want. That is what I may want hereafter, but what I want now is money.

No one wants to realise all his gains immediately in goods. He does not want to lumber up his premises with a mass of articles that he will not want for months, perhaps for years ; and of which many are inherently perishable, all liable to accidental destruction, and some at least, which, when the time comes, would be found to be not what he wanted, and would have to be got rid of.

No ! What he wants is something that will represent a *deferred claim* of a general nature upon the world's stock of goods, and that something, no matter what exact shape it may assume, is money.

But money, whether we consider it as coin, as paper, as bank credit, or as the deferred claim which coin, paper, or credit represents, is not the Third Factor of Production.

Coin, paper, credit, and claim might all disappear, yet the facilities for production remain unimpaired.

Whence again we see that the economists, misled by the adoption of a word to mean one thing, while universal custom had already appropriated it to mean something else, have got confused between the two meanings, and after declaring that capital meant instruments, and not money, have come without knowing it to mean money, and not instruments.

THE DISTINCTION IN THE MIND OF THE CAPITALIST.

As to the distinction being in the mind of the Capitalist, this is true only in a certain sense, and to a very limited extent.

A man, for instance, may use his chaise cart for useful work

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