

CHAPTER IV

THE ORIGIN AND NATURE OF SPURIOUS CAPITAL AND SPURIOUS INTEREST—DEBTS AND MONOPOLIES

HAVING ascertained the origin and nature of real capital, we may now investigate those of spurious capital, which is nearly always confounded with it by socialist writers. Even those among them who occasionally distinguish between capital and monopoly, invariably assert that the latter is an inevitable outcome of the private possession of capital; that capitalism must invariably evolve into monopoly, and that this evolution cannot be prevented except by the socialisation of capital.¹ As far, however, as the present writer knows, no socialist has ever attempted to prove this assertion. The nearest approach to it are attempts, such as that made in the second quotation cited, to prove that private ownership of the raw material of the earth, *i.e.* land, leads to monopoly, and then presume to have proved that capitalism, *i.e.* the private ownership of capital, does so.

It cannot be denied that monopolies may have their origin in legal enactments which are unconnected with the private ownership of capital and the private conduct of industries, and it may, therefore, be that all, or nearly all,

¹ "As sin when it is finished is said to bring forth death, so capitalism when it is finished brings forth monopoly. And one might as well quarrel with that plain fact as blame thorns because they do not produce grapes, or thistles because they are barren of figs."—*Fabian Essays*, pp. 93, 94.

"Granted private property in the raw material out of which wealth is created on a huge scale by the new inventions which science has placed in our hands, the ultimate effect must be the destruction of that very freedom which the modern democratic State posits as its first principle. . . . Thus capitalism is apparently inconsistent with democracy as hitherto understood."—*Ibid.* p. 98.

forms of monopoly owe their existence to this cause. At any rate, no honest conclusion as to the connection between capitalism and monopoly can be arrived at till all monopolies, which obviously exist through special legal enactments, are separated from those for which no such cause can be discovered. An endeavour to do this forms part of this and the following chapter.

The legal rights, which in some respects simulate capital, are either rights of debt or monopolies. Their similarity to real capital is, however, confined to the facts that, like real capital, they may be exchanged and may yield an income to their possessors. In every other respect they absolutely differ from real capital.

A right of debt arises when existing wealth is exchanged for a legal right to demand other wealth at a future date. The wealth to which the legal right refers may be in existence at the time the exchange takes place, or it may come into existence at some future date. But whether it already exists or not, the mere engagement of the borrower to hand over wealth to the lender at some future date does not add to the existing stock of wealth or capital. The stock is the same before and after the loan is made; nay, not infrequently, the wealth by which the right of debt has been purchased has disappeared before the right terminates. To illustrate: A, a manufacturer, sells goods to the value of £100 to B, a wholesale merchant, on credit; B sells these same goods on credit to C, a shopkeeper, for £120; C sells these same goods on credit to his various customers, the ultimate consumers, for £160. The capital has then disappeared, but it is represented by legal rights of debt, aggregating no less than £380.

This element is so conspicuous in the greater part of all public debts as to approximate the same to monopolies. The National Debt of Great Britain is a case in point. The wealth originally borrowed has disappeared without leaving any material representatives, such as part of the wealth borrowed by a railway company finds in the road, rolling-stock, and other labour-products on which it was expended. All that exists, and all that was originally

purchased by the lenders, is a claim on the labour of the people of Great Britain—the right to demand a share in the revenue which Government extracts from them by taxation.

Unlike real capital, therefore, rights of debt can render no service, can give no assistance in production. The capital with which they were purchased may have rendered such service in the past; if it was used productively, its representative may be rendering such service in the present; but the right of debt can render no such service at any time. It is a mere claim to wealth or capital, and, therefore, in its origin and nature so different from capital that the application of the same term to both must lead to the utmost confusion of thought.

It is the same with shares and similar documents. These are mere certificates of part-ownership in capital or legal rights. The share itself has no value apart from the capital or legal right to which it refers. Mere duplication of the number of shares, though it may deceive some into the belief that the capital which the shares represent has been duplicated, has no influence whatever on the amount of capital in existence. But because the legal possession of the share entitles its holder to part of the income earned by the use of the capital or by the exercise of the legal right to which it refers, therefore it is confounded with capital.

Legal rights of debt, such as book-debts, promissory notes, bills of exchange, bank-notes, treasury bills, debentures, mortgages, government and municipal bonds, as well as certificates of part or full ownership, such as shares and certificates of title, are, therefore, not real capital. It must, however, be admitted that they are inseparable from private ownership of capital and wealth, and the writer must also provide against the supposition that he objects to the existence of such rights. Though they are not capital, they, with the sole exception of public debts, the creation of which does involve injustice, are legitimate complements of the private ownership of wealth. For a private debtor has himself received the wealth the purchase of which created the obligation, or has voluntarily taken

upon himself the obligation of the original debtor. Whereas the wealth paid for public obligations was not received by the taxpayers, but, at best, by one generation of them ; nor was the wealth, so received, necessarily used for the benefit of subsequent generations of taxpayers. The moral right of a government to impose on subsequent generations the duty of repaying debts incurred by it as the representative of one generation is, to say the least, doubtful. Its admission in full would justify one generation of men in enslaving all future generations by mortgaging their productive power to the fullest extent, a doctrine which carries with it its own refutation.

The essential character of all monopolies is, that, without causing their possessors to be treated as criminals, they enable them to exact wealth from others without rendering any service in return, or to exact more wealth for such service as they do render than the recipients could be compelled to yield if free competition prevailed. A monopoly, therefore, must be established by law, or the law must have failed to efficiently provide against it.

The principal legalised monopolies existing in civilised countries to-day are :—

The private ownership of the land and of such treasures as the land contains.

The privileged or exclusive use of land for certain purposes.

Legal limitations of competition in certain industries and professions.

The most fundamental of these monopolies is that of the land, inclusive of minerals, water-power, and other natural agencies. As all socialists admit as much it is not necessary to dwell at length on this kind of monopoly here, all the more as it will be dealt with exhaustively in subsequent chapters. Two phenomena, which are not generally understood, ought, however, to be explained here.

In the heart of the city of Melbourne is a block of land, which, except that the trees which grew upon it have been cut down, is in exactly the same state as when the blacks roamed over the site of the future city. No labour

has ever been expended on it ; no wealth has ever been created there. Fifty years ago the present owner of the land paid £57 for it to the government ; lately he was offered and refused £60,000 for the same land. What is the cause of this increase in the value of this land ? It is this. When the land was originally sold, Melbourne was a village on the outskirts of the wilderness, and no one would have given the owner more than £3 a year for the privilege of using it. Since that time the country has been populated, the soil has been subjected to the plough, roads and railways, centring upon Melbourne, have opened the interior of the country, and as a consequence Melbourne has become a great trading centre. The volume of trade has enormously increased, and with it has increased the demand for such land as gives access to trading facilities. Any one wanting a trading location, such as this land presents, therefore, is compelled, and can afford, to pay at least £2000 a year for the privilege of using it. The owner of this land has taken no part in the activities which have resulted in the value which his land now possesses. Even if he had he would have done so as a worker and not as an owner, and would have earned no more title to this land-value than any like worker who is not a landowner. For reasons which do not concern us here the owner of this land has never made use of his power to levy a tribute of £2000 a year upon the industry of the Victorian people without rendering them any service in return. He has preferred to withhold from his fellow-citizens the privilege of using this specially favourable opportunity to produce wealth. But he can exact this tribute any time he chooses, and therefore he can sell the power to do so, the annual value of the land, for £60,000. This sum of £60,000 is now considered to be part of the wealth of the country. As a matter of fact, it is neither wealth nor capital, but the capitalised value of the power to levy tribute from labour and capital without rendering or having rendered any service in return.

Moreover, this power of landowners to exact tribute is not conferred upon them by any past services of the community, but by its present and anticipated future services

and necessities. The frequently ephemeral gold-fields of Australia illustrate one phase of this feature. As long as the field promises well and the population increases, the value of land in the vicinity rises, and frequently rises enormously. As soon as its disappointing nature is ascertained, and the exodus of the population has begun, the value of the land begins to decline again, and if the field is altogether unremunerative, the land declines to its former grazing value.

The concentration of roads and railways upon any centre enormously enhances the land-values there. Not, however, because they have been built, but because they continue to be used. If, acting similarly as Eastern despots have acted, a government were to discontinue the use of these roads by building sapping lines to another centre to which the traffic was directed, land-values in the old centre would decline, and would rise in the new one. Hence it is clear that land-values are not the result of past action, but the capitalised value of the tribute which the present and anticipated future action of the community enables landowners to impose upon the productive activities of the people.

The value of all land, and not merely of that which is withheld from use, is of exactly the same nature. To revert to the former illustration, the great majority of the owners of Melbourne land have made full use of their power to levy tribute. They have either themselves built on the land, or have sold to others permission to build upon it against payment of ground-rent. Where this has been done, wealth and capital, represented by the value of the buildings, has been produced, and as presently will be shown, the income derived from the letting of the buildings is a legitimate return for services rendered. But apart from the value of, and income from, such buildings, there is in every case a value of, and an income from, the land, which can easily be separated from the building value and income. This land-value represents nothing but monopoly, the right to levy tribute from labour for the privilege of using advantages not created by the owner of the land, but which are being created by the community of which

his tenants form part as well as himself, if he is not an absentee, as frequently is the case.

This power to levy tribute from building, agricultural, and mining land, as well as from land put to other uses, becomes capitalised on the basis of the prevailing rate of interest, and the capitalised value of the privilege becomes the value of the land. Where rent or royalty is paid by the users of the land, the difference between the tribute and interest, between the land-value and capital, is comparatively obvious. Where, however, the owner himself uses the land, and still more, where the land is used by a number of part-owners, as, for instance, a mining company owning the mine, the distinction is less easily observed. Nevertheless it is there. In addition to the income which the freehold farmer derives from his labour, he receives one which arises from the use of land made more productive by the community in which he lives. This part of his income can easily be separated from the rest, and forms the basis of the capital value of his land, apart from the improvements. Similarly, the monopoly value of a mine consists of the capitalised value of the royalty which could be obtained for it, and can be easily separated from the capital of the company, *i.e.* mine improvements, ore at the pit's mouth, buildings, machinery, or money.

All these monopoly values, easily separated from real capital, are obviously spurious capital. They are not the result of past labour, but of legal privilege. Their value does not arise, as that of real capital, from services which they render in production, but from the power to levy toll upon production. Yet socialists generally class these monopoly values as capital, and treat the tribute, the spurious interest upon which they are based, as of the same nature as real interest.

The second form of legal monopoly consists of the privileged or exclusive use of specially valuable land, such as is granted to railway, canal, and tramway companies; to the purveyors of gas, water, electric light, pneumatic and hydraulic power, and similar undertakings based upon legal privileges. Every such undertaking, in addition to the legitimate return for the services which it renders,

possesses the power, *in esse* or *posse*, to levy toll from those who avail themselves of their services, and the capitalised value of this toll is mistaken for real capital.

To show the essential nature of the tribute which such monopolies may claim, the following illustration will serve :—

Suppose Government were to grant to me the right to erect gates at all the points giving entrance to the city of London, and to charge one penny to any one who passed through these gates. Suppose also that experience had shown that, on an average, the annual income from this toll was £500,000. If the prevalent rate of interest were 4 per cent, the capital value of the privilege would be £12,500,000. I could sell it for that sum, and whether I sold it or not I would be considered to be possessed of a capital of £12,500,000. As a matter of fact, I would have no capital. All I possessed would be this legal privilege to levy tribute.

If now the number of persons desiring to enter the city of London were to increase, the income from the privilege would increase as well, and with it would rise the capital value of it. Nay, the mere expectation that such increase of traffic would take place in the future would add to the present value of this privilege.

Every successful undertaking of the kind enumerated above possesses, in addition to the value of its capital, some monopoly value of the kind above described.

Consider a railway company. The capital of the undertaking consists of the present value of the road—improvements, plant, buildings, material, etc., less such wear and tear as they have undergone. Suppose any one were to offer to buy any English railroad on such a valuation, or even on the value for which all its capital might be replaced now, without deducting anything for wear and tear. The directors would certainly regard him as a lunatic. Yet if any one offered to buy an ordinary factory of similar age on such terms he would be received with open arms. Whence then the difference? It arises from the fact that the Legislature has given to the railway company a special privilege, *i.e.* the exclusive use of a narrow strip of land

hundreds of miles long, unbroken by any roads or other rights of use. Having the exclusive right of use to this land, the railway company can charge more for carrying goods and passengers over it than if competing carriers were allowed to run trains over it.¹ The difference between competitive rates and the monopoly rates which the company now charges is a toll on industry as much as the toll levied at the gates in the preceding illustration. Capitalised, this toll forms part of the value of every railway stock. The value of railway shares is thus composed, partly of the value of the capital employed in the undertaking, and partly of the capitalised value of the legal power to levy tribute.

Some of the American tramway companies lend themselves to a detailed illustration of this feature of monopoly, because the facts have been carefully ascertained. To take only one example. Mr. Lee Meriwether, Commissioner of Labour, Missouri, reports as follows with regard to the tramways in St. Louis :—

The amount expended in buildings, inclusive of the cost of their site, and in building the lines and equipping them, is estimated at \$8,415,360. The total capitalisation of the lines he states to be \$38,437,000, and the dividends paid in the preceding year (1894) as \$1,962,468. The value of the undertaking, therefore, exceeds the value of the capital employed by more than \$30,000,000. The dividend, calculated upon the value of the capital, amounts to more than 23 per cent. Obviously, if such a business were open to competition, other companies would start, and the rates of carriage would be quickly reduced. But as the existing companies have been granted the exclusive right of using the streets for tramway purposes, no competition is possible ; and this exclusive privilege, enabling the companies to charge monopoly rates, is valued at over

¹ The monopoly resides in the ownership of the road, not in the conduct of the traffic. There can be no more objection to allowing any person or company to run trains over State lines of railway competing for the traffic than there is to allowing private traffic for hire on public roads and streets. The difficulties in the way of regulating the traffic and ensuring safety are not insuperable, as is shown in those cases where competing companies have running powers over the same roads. The advantages of such a system are obvious and great. The same considerations apply to tramways and canals.

\$30,000,000, and is regarded as capital by socialists just as much as the cars and rails and buildings of the companies.

Even where the legal right to use the streets is not exclusive, but merely privileged—as, for instance, in gas, electric light, and similar companies which have been accorded the right to lay their mains and cables below the public streets—the impossibility of granting the same privilege to every member of the community acts as a deterrent to competition, and therefore produces monopoly values. This tendency is increased through the fact that wherever competition is limited combination is feasible. The certainty that similar privileges cannot be granted indefinitely enables competing companies for the supply of gas, water, electricity, and similar commodities, as well as competing railway companies, to amalgamate or pool their receipts. The limitation of competition arising from privileged use thus ultimately results in the elimination of all competition, and in the establishment of the same monopoly and the creation of the same monopoly charges and monopoly values as where the legal privilege is exclusive.

All such legal privileges, therefore, are more or less of the nature of toll-gates; their value is not a sign of the existence of any real capital, but consists merely of the capitalised value of a tribute which the possession of such legal privileges enables their owners to exact from others, without rendering service or adequate service in return.