



CHAPTER IV.

The Problem Solved.

In answer to the question with which I closed the last chapter, I shall now try to present a solution of the greatest problem that poor humanity has perhaps ever had to deal with.

The question was: "What is it that prevents willing and able workers, all throughout the world, from going to work and exchanging the labour products for which they have a mutual need?"

Answers have not been wanting, but their insufficiency is apparent from the fact of their having a merely local application, even if it were not easy to show the threadbareness of the logical fabric upon which they are based. The answer can never be a satisfactory one, so long as it does not admit of universal application. As Henry George says in the five opening chapters of "*Progress and Poverty*":—

"This state of things, common to communities differing so widely in situation, in political institutions, in fiscal and financial systems, in density of population and in social organization, can hardly be accounted for by local causes. There is distress where large standing armies are maintained; but there is also distress where the standing armies are nominal; there is distress where protective tariffs stupidly and wastefully hamper trade, but there is also distress where trade is nearly free; there is distress where autocratic government yet prevails, but there is also distress where political power is wholly in the hands of the people; in countries where paper is money and in countries where gold and silver are the only currency. Evidently beneath all such things as these, we must infer a common cause."

Under-consumption, the Cause of Over-production.

What is the common cause? What is the obstacle now standing in the way of the free exchange of products between workers and, consequently of their complete liberty to produce? "Why, you acknowledge it is a question of free trade," says the free trader, quite forgetting that the free exchange can just as little take place in countries governed by the principles of Cobden. The prime condition of liberty of exchange is the right of exchange. Is this not the same thing under another name? Not quite. Liberty of exchange means the absence of laws trammelling free exchange. The right of exchange presupposes the ownership of the product which we want to exchange with the product of another. If producers do not own their products, it is perfectly clear that they cannot exchange them. If they only possess part of them, it is equally clear that they can only exchange part of them. Now we know that in civilised communities workers do not and cannot own their products fully. Even where neither rent, nor interest, nor profits of enterprise, nor wages of supervision claim their share, government requires to be maintained and part of the product of labour has to be given up for this purpose.

In many cases, the number of which increases with the progress of our industrial system and with better division of work, workers do not own their product at all, but only a part of its value, which they mostly receive in the shape of wages. This is immaterial; the question of importance can only be whether the share they receive is a full remuneration for that part of work contributed towards the joint product of all the workers who had a share in producing and realising the market value of the product. The state which provides the security necessary for the peaceful progress of the work; the professions looking after the health of the workers, attending to their education, to the adjustment of their differences or to religious worship; the manager who takes his share as wages of superintendence; the merchant engaged in the work of exchange—all are co-workers, contributing their part to the market value of the product, and their share, if fairly valued, can not be really considered a deduction from the just wages of labour. On the contrary, we may safely assume that, in spite of these deductions, labour is getting more than when it

owned the product in its original shape. The progress in the methods of production, exchange, and protection, which involves such deductions, added much more than it took away, even though a greater waste takes place in the different departments mentioned than would be strictly necessary. If government is too expensive, if too great a share is paid to merchants and carriers, there can be no doubt that the relative expenses under both heads are considerably less than they ever were before.

Anyhow this is a question we have not to treat here, where we want to find out the obstacles to the right of exchange. The share, appropriated from wealth produced by the labour of such partners as those above named, can not interfere with the free right of exchange, for their share must be consumed by them sooner or later and thus cannot interfere with free exchange of products all round. Let us suppose a group of one hundred workmen and one employer.

The one hundred workers are producing all necessities and luxuries, each one having his speciality; the employer gets one tenth of all they produce. Each worker will thus have only nine-tenths of what he produces, the employer will get the production of ten workers. The question whether the work of supervision and organisation, and, perhaps, of invention, accomplished by him is worth as much as he gets for it, and whether through the employer's work every worker, in spite of his giving up one tenth, gets more wealth than he would without the employer's interference, is one of no importance in regard to the question before us. All we want to know at present is whether the employer's confiscation of one tenth of all the wealth produced will in any way interfere with free exchange, with the full right of exchange. It evidently will not, if he consumes his share of wealth, or even if he puts it aside for future consumption.

The workers, instead of exchanging the product of a full day's work only exchanged that of nine-tenths; the employer takes the balance and every body has full work all the time.

Let us suppose now, that the productiveness of labour by means of inventions increases tenfold, as actually has been the case, if we compare to-day's results with those of the middle ages; let us further suppose that wages, that is, that

part of the product left to the worker, have quadrupled in that time, which, as we have seen in the last chapter, is far from being certain. In what ratio will the share of the employer have risen, if he gets the balance? P is the product, of which formerly W , the workers, enjoyed nine-tenths, and E , the employer, one-tenth. W had together 90 P , E 10 P . Now W enjoy $4 \times 90 P = 360 P$ and the total of production being 1,000 P , E will get the balance of 640 P .

Let us suppose that his needs have only increased tenfold, whereas his income has increased sixty-four fold; this would enable him to invest a great part of his revenues in luxuries or in new tools by which he could still further increase the productivity of work and consequently his income.

We might consider it unjust that one man should get so much, and others so little. We might reply to statisticians like Giffen, who exultingly point to the quadrupling of the workers' incomes as a proof of their increased prosperity, that their relative income instead of having quadrupled, has gone down to two-fifths if we take into account the increase of productive power; but all this would have nothing to do with the right of free exchange. Every worker would be able freely to exchange his products with every other worker, and there would be no want of work for any. Whether E takes his lion's share in articles of consumption, or whether he prefers taking it in new tools and machines by which he further increases the productiveness of labour, is immaterial. The latter form of investment might be of greater advantage to the workers, because it is not impossible that a small part of the increase of wealth due to new machines would fall to their share. But even supposing that it only increases the income of E , it could not do them any harm, so long as E continues to invest his surplus in the old way. But let us suppose now that E is the owner of the land and by that means of all forces of nature, all its accumulated treasures, without which work is impossible—and we have to make such a supposition, as otherwise there would be no earthly reason why the workers should not have left their employer, as soon as his share exceeded the value of his services. They would very soon have made for themselves as good machines as they had made for him. Let us further suppose that E made up his mind that he had machines enough and did not want any increase of luxuries for the time being. A

new feature of the problem would in this case present itself which had not been observed before. There would no longer be work enough for all the workers. They would like to continue as before, working full time and exchanging with each other the products of their work, giving the lion's share to E, but E will not let them have the use of natural opportunities any more and any longer than he needs their services which they furnish in payment. One half of the tribute they are in the habit of paying is all he needs, and the natural consequence is, that half the work will be all he requires, and all he allows to be done on his land. He now uses the rest of the land as a deer park. There being no other way of going to work than by using E's land, our workers will have to work half time, though they would be happy if they were allowed to make use of their leisure to produce for themselves the goods they are so much in need of, because naturally E only pays them half wages for half work. Very soon fifty of the workers will come to E and propose to him to work cheaper than the others, or to give him a larger part of their products, if he will allow them to work full time. E accepts, and from now there is no more work for fifty of the workers, for the remaining fifty do all the work and leave a larger share to E than the hundred left him before. Let us suppose that E increases his consumption fast enough to use up the new savings he makes in this way as otherwise there would not be full work even for the fifty cheaper workers. Things do not rest here. The fifty unemployed ones, pushed by hunger, finally underbid their former co-workers, and get the work themselves, or rather forty of them get it, for they work so hard, long, and cheap now, that E gets as many goods out of them as before out of the fifty, and since he does not need any more goods for the present, there is only work left for forty. These forty, reduced to starvation wages by their underbidding their former friends, call in the help of their wives and children. By these means they begin to get along a little better, until the increased production becomes too much for E, who consequently dismisses ten of the party. The unoccupied reserve army of workers amounts now to the number of seventy and their families. Want drives them to underbid the thirty, who with their families are working overtime to make a decent living. Finally a man working with his whole

family gets no more for fifteen hours work than he formerly got alone in ten hours. "There is no help for it," say the law-givers they appeal to, "work is slack. Emigrate (to other countries, where the same state of things takes place) or go to the poorhouse! We cannot fight against the laws of supply and demand." Some of the law-givers belonging to another party propose protection, or as that name has become hateful in their country by past bad experiences, they call it "fair trade." The workers cannot see what good it can do them, if goods are not imported which they cannot produce as cheaply as the workers of other nations, especially if these, to be even with them, stop taking those goods which they (the native producers) used to export, having attained the knack of making them better and cheaper. Said producers not knowing how to strike at the bottom of the evil propose certain measures, which in any case would do more good than those offered by the fair trade party. They ask for a maximum working day of eight hours, and for a prohibition of the employment of married women and children, and others even want the state to fix a minimum of wages. When the law-givers of both parties hear this, a terrible noise is raised against these socialist and anarchist agitators, who want to sap the foundations of our prosperity, the liberty of each man to work as long as he pleases, and to sell his work and that of his wife and children to whomsoever and as cheaply as he pleases. They ask the workers how they can afford to lose the wages of overtime and the earnings of their wives and children when even as it is they hardly know how to make both ends meet.

In this way things get worse every day. If a certain part of the unemployed did not open liquor-shops; if others did not artificially add to the cost of goods by waste in the work of exchange, thus forcing E to spend a little more and to occupy more workers; if others by becoming criminals and paupers did not make more work, especially by forcing E to employ some of them as policemen and soldiers, thus reducing the army of the unemployed; if the E's of the different countries did not from time to time quarrel amongst themselves and lead the unemployed workers mutually to kill each other, thus reducing their numbers; if these and similar means of decreasing *overpopulation* were not adopted, there would have been a terrible catastrophe long ago.

We have seen now that the direct cause of the evil is not that E gets a certain share from the workers, but that he does not take this share as fast as they are ready to deliver it, preventing them at the same time from working further until he feels ready to accept the part due to him. We have further seen that the power of thus impeding production is given to him by the ownership of natural opportunities.

The problem is so important, that I may perhaps adduce another parable for its illustration.

Robinson Crusoe, on his island had to work all day to satisfy his needs. When he got Friday to work for him, things began to improve. He got a little leisure once in a while and could think of producing articles of luxury. More slaves were procured. The result was complete exemption from work and a greater amount of luxury for Robinson, while the slaves had to work all day long with their primitive tools to provide these and the necessary means of subsistence for themselves. A ship arrived bringing them all the tools and machines which technical science has brought to civilised humanity. Very soon the slaves learnt how to use them. Their productive power increased tenfold. Where formerly the work of six slaves and that of their whole families was necessary to provide the entire colony with clothing, a single producer was sufficient now, and, in spite of this, every body was clothed better than before; for the cotton gin, the spinning jenny, the improved weaving machine, the sewing machine and other inventions of the same kind, facilitated so much the work for the one worker, that he was enabled to achieve more than thirty could before. It was about the same with agriculture, with breadmaking, house building, and in fact with all industries which before had been carried on by hand. Everywhere hands could be spared, and yet there was a larger production than before, so that all could live in abundance. The unemployed workers had to produce articles of luxury, which before could not be obtained. Good beer, wine, furniture, carpets, table services, and jewellery, or works of art of all kinds were made; in fact all these settlers could wish for. In time machines and tools, as well as methods of production improved more and more, so that workers in all branches could be spared. What did it matter? A great many more articles of luxury were invented and provided. One of the

slaves, who was very talented, entertained the company with musical and theatrical performances, another wrote books, others built pleasure carriages and yachts, etc. The general well-being increased continually with the increasing facility of satisfying every wish.

All this was very good until one day Robinson got up in bad humour, and gave the order to stop the general good living of the slaves, which did not please him. "He alone had a right to enjoy all those luxuries which everybody had been partaking of, and the slaves ought to be satisfied, if they got enough to eat and to drink, and had protection against wet and cold. All that went beyond this point only made them lazy and vicious." From that day the slaves were forced to live accordingly.

A week after this, when Robinson took a walk, he saw a great number of the slaves standing about doing nothing. He angrily called his head man and gave him strict orders, that only those who worked were to eat and have clothes and lodgings.

He was perfectly astonished, when some time after this the head man came to tell him, that a number of the men were dying of want. "Are you mad," Robinson asked him; "has not the land got as much and more stock of all the good things man needs, as we could wish for, and can we not produce as much more as we like? Are there not victuals enough? Are we short of clothing, or of houses?"

"On the contrary," the head man humbly replied, "we are forced to build new storehouses, because the old ones are filled to the top with food and clothing, and a great many of the dwelling houses are empty."

"Well?" asked Robinson, whose astonishment continually went on increasing.

"Yes, sir, that is all right, but you ordered that only those who work are to be fed, to be clothed and housed." "Certainly, and that was only right. Why don't the lazy fellows work?"

"Because there is no work for them."

"No work?" said R., more and more astounded and feeling his head to see whether he was not dreaming. "No work? Are you crazy, my man?"

"No, sir," replied the head man, who felt offended, "I have got all my senses about me and should be very grateful

to my master, if he would show me what work I am to give the men. In the brewery, to begin with, three men were employed, who had plenty of work in providing the beer for our people. Since your lordship has forbidden this luxury, so that only the beer for your table has to be brewed, I had to take away two of the brewers and the other is only busy one-third of his time, so that he is also doing the work of the cooper, who is out of work, too. It is the same with the people who made the carpets and other articles of luxury. Your lordship is provided for and the others are not to have any, so I had to take all the workmen from their work."

Robinson learnt a great lesson that day, which our economists and statesmen, as it seems, have yet to be taught, a lesson which in fact we ought to ponder over, if we don't want it driven home to our minds some day in a fashion we shall hardly relish.

I have tried to give a solution of the great problem by presenting two parables. In both the cause of the decrease in the demand for work is explained by the fact that workers have only a claim to a part of the wealth their labour produces, and that the parties to whom the balance has to be given up do not want it as fast as it is produced, and until they want it the workers are forced to remain idle, as they cannot get work without having access to natural opportunities, which are in the possession of the employers. The workers have to go hungry, because the employers have no appetite.

Do these parables correspond with actual facts as we find them in the real world? They partly do; but unfortunately the real picture does not present such clear and unmistakeable lines. Colours intermix and superpose in such a bewildering maze, that the unpractised eye cannot get a clear outline of the more important features. In very rare cases only do we find such a simplification of the problem as the two sketches here presented show.

Proudhon in "*Qu'est-ce que c'est la Propriété*" draws another picture, which, though apparently very plain and clear in its outlines, shows such a maze of labyrinthine intertwinings, that without a thread of Ariadne to lead us through, it is impossible to arrive at an opening where the light of day can enter and allow us clearly to see our way.

"If the right to live is common to all, so is the right to work and the right of occupation. Could the inhabitants of an island push back with poles unfortunate shipwrecked people, who try to land on their coast, under pretence of their property rights, without committing a crime? The mere thought of such a barbarous action is revolting to the imagination. The proprietor, like a Robinson on his isle, pushes back with pike, and gunthrusts, the proletarian whom the wave of civilisation submerges and who tries to grasp at the rock of property. "Give me work," the latter shouts with all his power at the proprietor, "don't push me back, I'll work for the price you are willing to pay." "I do not want your services," answers the proprietor, advancing the end of his pike, or the muzzle of his gun. "Lower my rent at least." "I need my revenues to live." "How shall I be able to pay you, if I do not work?" "That is your business." The unfortunate proletarian now lets the current carry him off, or if he tries to enter into the property, the proprietor covers him with his weapon and kills him."*

*Chivalry in its death throes had poor Don Quixote for its champion. In England Mr. Auberon Herbert vows with an enviable earnestness that that Dulcinea of Tobosa, *Individualism*, is the most beautiful and virtuous lady in Christendom. While writing this book my attention was drawn to a new sally the noble knight was making on his Rosinante, to which I have already referred in the 3rd chapter. I expressed my hearty appreciation in the following article, which appeared in "Land and Labour," the excellent monthly of the Land Nationalisation Society.

"A LIBERTY NEWSPAPER."

"Under this title Mr. Auberon Herbert intends to start a weekly penny newspaper, 'to resist the continual encroachments of government, either central or local, upon the free judgment and the free action of men and women.' 'In describing the character of the paper, I should say that first and foremost we shall insist upon the fundamental right of each individual to direct his own life in such a fashion as seems right to himself, provided only that he is not an aggressor upon the equal rights of others. . . . We shall be democratic in a true sense as opposed to all forms of privilege.'

"All this is very pretty and reads well; but the fox's tail is bound to show: "We shall be conservative in a true sense as defending property against all attacks.' What Mr. Herbert means by this he has shown before on different occasions, when he stood up as a

Let us try to separate the different lines of the picture here presented to our inspection. We can clearly distinguish herein the main feature presented by the two parables before given. The worker perishes, because access to natural opportunities is denied to him by a monopolist of the same. Why is it denied? Is it also because the proprietor has more wealth than he can consume and for this reason sees no way of occupying the worker? No. Proudhon's proprietor needs his income. We may even suppose that it is insufficient to supply all his wants. The rent roll is small and he is in debt to a capitalist, who takes almost the whole of his rent in the shape of interest. Rents are low, because the fruits of the soil are almost unsaleable or only saleable at prices which hardly enable the cultivator to make a living, leaving nothing or very little for rent, because the market is as overstocked with the products of the soil as it is with all other kinds of goods. Why is it overstocked with the necessities of life, when we see a poor man perishing for the want of them? It is overstocked, because he cannot purchase any of these goods. Why can't he purchase them, when he is willing to offer in exchange his work capable of producing wealth as valuable as that which he wants to buy in exchange? *Because the access to natural opportunities is denied to him, without which work is impossible.* But we have seen, that the man who owns

defender of our present system of landownership, which, considering his personal position, is not to be wondered at. We don't envy him the task he has put before himself. If he can shew how an individual can direct his own life in such a fashion as seems right to himself, without having access to the stores of Nature, to land, he creates a new philosophy. If he can further prove that one or more individuals can own, unconditionally, the soil of a country, without aggressing upon the equal rights of others, he accomplishes a yet more difficult task. We do not despair of the possibility of his accomplishing such feats; for belief is a great power, and a man who, without blushing and wavering for a moment, can emit the following article of creed is capable of the greatest deeds: 'Our creed will be, that the workman is destined—should he remain true to himself and refuse to be used as a plaything of political parties—to become gradually the possessor of the larger part of the capital of the country, as the management of voluntarily associated bodies improves, and as he himself acquires the habit of investment in industrial enterprises.'

these natural opportunities cannot let him have access to them at a rent which will enable him to live, because he himself is hard pressed by somebody else, to whom he is indebted. Our landowner is perfectly innocent of any share in the wrong. He is no idle spendthrift; but a man who works for his living as hard as he can. The income his work supplies him is barely sufficient to maintain him and his family, and the rent he gets from his land has to be paid to his creditor to cover the interest on his debt and to pay taxes. It is not his abundance certainly which causes the glut in the market nor his consequent failure to make up for the insufficient consumption of others by his nonconsumption; it is not this which lessens the chances of finding work for would-be workers. He would willingly consume more if he could.

But if he is so far indebted, that the interest of the debt almost or completely swallows the rent, he is only the nominal owner; his creditor is the real landlord. His creditor has been furnishing him with goods for his consumption, machines and tools used on the farm, all of them the products of legitimate industry. Our landlord could not pay for them

"Poor workman! For a thousand years hast thou not been the plaything of political parties, for thou wast like dumb driven cattle, without a voice in thy nation's councils; and now thou hast acquired it, thou hadst better leave things alone and to thy betters, who have managed them so splendidly all this time that they are in the worst misery while thou livest a shameful life of luxury.

"Two more delicious morsels, and we have done with Mr. Herbert.

"He wants taxes and rates to be abolished gradually, and to become voluntary. What we have to expect from the class he belongs to, when we leave it to them to fix their own taxation, the history of the four shillings in the pound land-tax, which they gradually worked down to two-pence, shows conclusively, as to Ireland, he says, after having conceded it the right of Home Rule, 'But we shall not consent to throw any section of society to the wolves, and we shall insist upon the fair claims of landlords being settled in business-like fashion before the great change is made.' No objection to this, of course, can be found, if the questions who are the wolves? and what are the fair claims of the landlords? are settled. Perhaps the result would not be what Mr. Herbert thinks, and for this reason he would rather have English landlords settle this question than the Irish peasantry with the robberies of centuries fresh in their minds.

and pays interest on his debt until it is paid for. Is there anything illegitimate in this? Is the debt to become an extortion, because the interest of it is paid by rent extorted—to use the expression current in land nationalisers' writings—from workers on the land? Furthermore it is not our capitalist either, whose under-consumption causes the glut in the market, that deprives workers of a chance of work. Those who are responsible for this real cause of the crisis are quite invisible in all this.

Let us pick out the biggest of them, to illustrate our case, viz., the Rothschild family. The different branches of the clan, the London, Paris, Frankfort and Austrian Rothschilds are estimated to possess together between 200 and 400 million pounds sterling, representing an income of from 6 to 15 millions. Let us take 10 millions as representing the real figures and let us suppose that 1 million represents the yearly consumption, an amount certainly rather in excess of reality than otherwise.

No income falls from heaven. Somebody has to pay it to the fortunate owner, and, as a celestial downpour is out of the question, this somebody will have to work for it. Nobody denies this. Economists only pretend that the capital on which the debtors of the Rothschilds pay them interest produces this interest. They do not mean, of course, that this production takes place automatically, for they know very well, that capital in any shape, if left to itself, will decrease and gradually disappear through the attacks of nature's destructive powers. All they mean is that the use

"Fortunately poor Individualism has better champions than this scion of nobility, who strongly reminds me of the man who was an ardent follower of Cobden and a strong believer in free trade, until it was proposed to touch the industry he himself was interested in, by abolishing the duty on red herrings. 'Hurrah for Individualism!' shouts Mr. Herbert, 'provided you leave me the monopoly which the state has kindly given me and my friends, or rather, which our forefathers established for us by robbery—the land of Great Britain and Ireland. If you do this, then Hurrah again for free Individualism in balloons, for the earth is ours.' Those who want to make the acquaintance of a real individualist, I recommend to read *The Outcome of Individualism*, by J. H. Levy, the editor of the *Personal Rights Journal*. He is an individualist who sees that *free land* is the *sine qua non* of Individualism."

o the capital in question by workers enables them to increase the productivity of their work to such a degree, that it not only leaves them higher wages than their work unaided by capital would have obtained for them, but enables them in addition to pay a certain hire for the use of the capital corresponding to the rate of interest established by supply and demand. (Wherever I use the word *wages* I mean earnings of workers of any description—those of the employer as well as those of the common labourer—of the former, in so far as they are the remuneration of his work of enterprise and superintendence.)

My opinion is, that never did a falser theory obtain general acceptance than this. This is the more strange as no theory could ever be more easily demolished by the most simple arithmetical proofs.

We all know that old problem of the penny lent out on compound interest at five per cent., since the time of Christ, which to-day would have reached a value equal to a certain number of globes as large as our earth consisting of solid gold.

Proudhon says in the book before cited

“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 24th generation after the lapse of 600 years, this sum of 100 francs, would, if invested at 5 per cent., 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 (50 years ago), or 20 times as large as the value of the whole globe with all moveable and unmoveable 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 tenfold, hundredfold, property (he means land and capital with secured rent and interest claims) by its power of accumulation and capitalisation 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 labour. All exertions, all improvements in the methods and tools of labour, 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.

Ages had gone by, since sinful man had been 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 mankind 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 useless 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 sinful 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 done him even more harm than it did, if a family feud it had with water had not enabled man to make use of their deadly enmity to fight one with the other. Now the time had come, when the unrelenting antagonism between the two was to be used as a means of taking off the terrible weight of physical labour pressing upon mankind. The deadly enemies 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 fearful power so engendered to turn wheels and to do all the heaviest work. Millions of iron giants in this way were pressed into his service, working for him night and day.

Far down in the depth 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 lightening speed, when the iron steam giants were put behind them 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 to satisfy wants, which in former times the richest even did not know or dream of. All the luxuries art and refinement could invent were at the disposal of the poorest, if free scope was given to the wonderful giants and goblins, the numbers of which daily increased in astonishing 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 for ever. 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 highest 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 was looking 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 saw 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 he was leading, when among the follies of man he observed one little imp, who, instead of the despondent mournful look, all the others were wearing, looked at him in a saucy and 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 favourite 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 in a sad voice, you do not know the power of the enemy we are fighting now. You are no match for the 'spirit of invention.'"

"Well, there is no harm in the attempt," answered the imp. "Supposing you allow me to try a duel with the fellow?" "You little fellow, 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 any man ever 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 this misery, and to use his best powers to fetter them and to keep them from their work by protective, military and other repressive laws. He shall sigh for the good old times, when machines did not yet take away the work from poor men!"

"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, quiet sport, in which the imp was the victor.

Angel "spirit of invention," at first only laughed quite heartily, when he saw the little imp, 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 fellow. 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 commands." There is no need for his doing that," calmly replied the imp. "I alone, together with my son," compound interest, "whom you see peeping 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 chessboard. It looks just like any other chessboard with 64 squares; but it has the peculiar quality of extending the dimensions of the squares, so as to always 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 if, 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 will leave this world for ever with all his troops. If I win, you and your army are to be at the commands of my master. Are you agreed?"

"Am I agreed?" replied the angel, laughing, as his eye glided 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 a calm business-like tone, 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 30th square the angel ceased to laugh, and a few squares further he had to open the gateways of his fertile brains as wide as he could, urging on the new troops coming forward from it 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 with a despairing voice, "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 who 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 benefitting 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 eye appeared an unmixed blessing proved to be the incomprehensible source of greater need. Satan had been victorious far beyond his expectations; for those consequences of the battle of life always more intensifying and growing wilder, poverty, ignorance, crime, vice, and hopeless misery, appeared clearer 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.

But all this only proves that *compound interest* is wrong; it does not prove anything against *interest-proper*. An objection of this kind can hardly be maintained after one moment's reflection. What is compound interest? Is it anything else than the fresh investment of earnings of capital? In what way does the lending of £100 paid to me as interest upon £2000 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 labour does not earn enough to enable it to pay interest at current rates and obtain decent wages, or even to get any wages at all. Therefore it must be clear, judging on mathematical grounds only, that capital does not produce interest even when in the hands of labour. If this is true, then interest must be an unjust tribute extorted from workers by capitalists.

Henry George's defence of Interest.

In Chapter 3, book 3 of "Progress and Poverty," Henry George investigates the reason and justice of interest, and after successfully demolishing the current argument based on the power which exists in tools to increase the productiveness of labour, usually illustrated by the plane-lending example of Bastiat, he finds another ground of justification for interest in the power of increase given to capital by the reproductive forces of nature, and by the in effect analogous capacity for exchange.

The element of time is the important factor through which, according to him, these forces produce the values represented by interest.

“It is true,” he says, that money will not increase, if put away. It only claims interest, because it can be exchanged with other kinds of wealth which claim interest, as for instance wine, which improves in quality, and bees, sheep, hogs, and cattle which increase in number, &c. But is it true that wine always improves in quality, when put away? Certain wines will, if well attended to. If not, and if put away too long, the element of time will develop the destructive forces of nature instead of its reproductive ones, or rather, it will develop a form of this reproductive power, producing changes, which, according to the estimate we put on them, are destructive. The conversion of old wine into vinegar may certainly, in a sense, be considered as an effect of the reproductive powers of nature; but it is certainly an effect which does anything but increase the value of the said wine. It is a change partaking exactly of the same nature as the fermentation of the grape juice, or the turning of new wine into old. The only difference is, that the prevalent taste which governs market values prefers new wine to grape juice, and old wine to new wine, but either to vinegar. It is the prevalent taste, not the universal one, for the writer, for instance, greatly prefers the unfermented grape juice to any of the later forms which wine acquires. If everybody thought the same, it is quite certain that the element of time would diminish the value of wine as it diminishes that of other products of labor. But even as it is, can we really say that an increase of value has been obtained beyond that which pays for the rent of the cellar, the labour of bottling, of supervising and of guarding against the risk of breakage, fires, robbers? Certainly we can. Nobody would invest capital in wine, if he could get back his outlay alone, including the wages of his labour. Why? Simply because he can get interest if he lends out the said capital, and therefore he will certainly not invest it in the wine business, if he does not expect to make at least as much out of this kind of investment, as he could from anything else. Here we have the simple reason, why a certain percentage will be added to the price of the wine, sufficient to compensate the wine producer for the interest he otherwise could have obtained for the use of his money. Instead of a cause we only have an effect. It is just the same with all the other examples

produced by George, or in fact with any examples of this nature.

The prices of honey, sheep, hogs and cattle, have as their components, rent, wages, insurance against loss, and interest ; but the last element only enters in because other investments will bring interest. If this were not the case the price would be so much less. Competition would bring it down to the level on which the regular market return for the other above-named elements of cost could be obtained. The market value of rent, of labour, of insurance against risk, together would give us the price at which the goods in question could be purchased. Again, we see interest is a cause, not an effect. But if I find the same fact everywhere, if I say that interest has been added to the price because it is obtainable elsewhere, do I not try to explain one effect by another, without ever finding a cause ; and should I not be forced to admit that there must be a flaw in my reasoning ? Certainly, if I could not produce the real cause. What is this cause ?

Monopoly the cause of Interest.

The real cause of interest is monopoly, and in the last resort, the greatest of all monopolies and the father of all the others, is that of *private landownership*.

As much as 350 years ago the great reformer Calvin, answering the arguments of Aristotle, who thought the taking of interest unjustifiable, because money put aside cannot produce money, said :—

“It is undoubted that money does not produce money ; but with money land is bought, which produces more than the returns for the labour 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 £3 worth of rental income, I should certainly be a fool if I lent this £100 in money or goods of any kind to any body unless he paid me at least £3 a year for the privilege of getting the use of my capital during that time.

Here we have in a few words the answer to the question where the real origin of interest is to be found. Not because old wine has by natural causes obtained an increase of value beyond that added by labour, storage, rent, etc., do we obtain the higher price, but because the same capital invested in land purchase would have brought a certain rent. When, instead of purchasing land with his money, our wine merchant bought new wine with it, he had to add to the cost of his wine the rent he sacrificed.

Land, though the principal and original source of incomes obtained without work, is not the only one. Every secure monopoly partakes of the same nature. If the state issues certain scripts called government bonds, by the ownership of which can be secured the monopoly of claiming as private income, a certain part of the taxes collected by the state, or in other words, the privilege of making use of the whole power of the state to force the workers into paying to the owner of the bond a certain portion of their earnings by means of the tax-collector, then every one who has capital in hand, which somebody wants to borrow will demand and obtain as much interest for the same, as can be secured by means of the state bond, with the addition or deduction of the risk premium resulting from a comparison of the securities offered on either side. Railway bonds and shares, canal securities, gas and water-work investments, mortgages, etc., participate more or less of the same character.

When I said that the land monopoly was the father of all these monopolies, I meant, that if the state had never parted with her rights in the land, there would never have been any government debts. As the sole landowner, the sole proprietor of the fountain of all material existence—the possession of which entails the right of levying a tribute from all the inhabitants equivalent to all their earnings beyond their legitimate wages, and even more if found necessary—the state with such a power would always have been the greatest capitalist in the land, so far exceeding all others in the magnitude of her wealth, that instead of ever having to borrow, she would have become the principal lender. She would have been enabled to build the railroads and canals from her own capital, and so gas and waterworks, etc., would have been built by the community.

The proof that, *without private ownership of land interest never would have existed*, and that, after its abolition interest is bound to disappear, will be given in the next chapter. I should not have entered into this subject so far as I have done in this place, if it had not been absolutely necessary to understand the real origin of the incomes our great capitalists are deriving from interest before proceeding any further. If the millions the Rothschilds are yearly receiving from the workers were nothing but a product of nature, as Henry George thinks, my way through the labyrinth of the great problem would be barred at the outset. It is only after having recognised the truth that interest is in reality a tribute wrung by the capitalists from the legitimate earnings of labour, and not a product of capital collected by the users of capital for its legitimate owners, that we can proceed on our way to the real solution.

Investments of the great Capitalists.

I assumed that the Rothschilds have an income of ten millions and that they only spent one of these. This fact means in the first place that the workers of the world have to deliver up ten millions worth of the wealth they produce, and in the second place that the R.s only take one million's worth of that wealth. This looks generous or seems at any rate to be beneficial to the general community; for either the R.s make a present to the workers of the nine millions they do not need, or they turn them into new capital, which means into new machines, into new railroads, new canals, etc., thus increasing the sources from which all the attainments of our wonderful civilisation spring.

We know that the R.s do not give away the nine millions, for their budget of charity is already included in the million they are supposed to spend. Do they build machines, railroads, etc., with the surplus in question? If they did, the social problem of the nineteenth century would not exist, nor would the social problem of former ages return in exchange. Everybody would be busy; there would be no want of work.

Want of work? Do we realise what that means? What progress have we made in the course of ages! Want of work was certainly not a complaint known in the times when the Pharaohs built their pyramids. Want of sufficient subsistence

for the workers might have been the cry; but fortunately we are past the times when the wealth producing power of humanity was so low that a minority could live in luxury only on condition that the majority was deprived of the needful. The millions consumed by the Rothschilds and Co. would not deprive the masses of the necessaries and even of certain luxuries of life. Our thousands of millions of iron and steel slaves would attend to that. Needing only a little coal to feed them, which they help to produce from the bowels of the earth, they could give up the balance of their share to the human workers, leaving them enough to over-feed their drones and yet to have a sufficiency left for themselves.

Slavery as a legal institution is a thing of the past in civilised countries, but the modern chains, called "competition for the daily bread," which the civilisation of our nineteenth century has placed around the limbs of our "free" workers, are much heavier than those weighing down the slaves of antiquity or of Louisiana. "Work for all who want to work," would soon change "competition for the daily bread" into "competition for the superfluous," for it is only the army of the unemployed which presses down wages and puts the worker at the mercy of the employer, who himself by the same cause has to disgorge into the coffers of capitalism the wealth wrung from the workers. He only performs the office of a sponge, used by capitalism to surrender under its grip the life blood of the workers it has sucked in.

If the thousands of millions of unconsumed incomes were really invested in machines, factories, railroads and other productions of work, there would be plenty of work for everybody. Thrown out of one department labour would immediately find work in another. If improved machines lessened the number of workers required to produce a certain article, new hands would at once be required to make these improved machines, and as their number could never equal that of those they displaced or there would be no saving—the spare hands would produce new articles of luxury. Not seeing and understanding the obstacle, and convinced of the truth contained in the theory which demands the self-adjustment of employment in the different departments of work, our economists pretend that such self-regulation

actually takes place. We have seen in the last chapter how they manage to get over the inconvenience of facts which totally differ from their pet theories.

An exceptional circumstance took place at the time railroads were introduced, an unprecedented increase of long compressed travel not only gave full employment to the new vehicles, but also increased the number of horses and coachmen, whose trade short-sighted people expected to die out, whereas in reality more coachmen were required to carry people and merchandise backwards and forwards from the new engines of transportation, under the new system, than were previously wanted to do the entire business of transportation. This exceptional fact is, up to this day, made use of to prove that all improvements in the arts of production and transportation are bound to have the same effect, though statistics, as we have seen, show a completely different picture.

If the unconsumed incomes would find investment in new machines, &c., there could be no want of work. We should really obtain all the good things which our economists pretend we are enjoying. The beans would be there, if the pigs had not eaten them; real beans, not such as exist only in the imagination of our philosophers. Not only would the new machines, &c., continually afford employment for large armies of workers, but the number of hands employed by these machines would not decline in spite of their increased productivity, because a proportionate reduction of prices would increase the purchasing power of wages and the consumption of the cheaper goods in an equal measure. The absence of the immense reserve army of unemployed workers would render it impossible for employers to press down wages as the cost of living increased. On the contrary, the workers would have it in their power to exact an increase. The rock on which most strikes are bound to founder will be cleared away, when the unemployed are busy. When two employers look out for one workman, wages are high; as long as two workers apply for one vacant place, wages will have a downward tendency, in spite of all the strikes in the world. This tendency will be downward even when wages rise, if they do not rise in proportion to the increased productivity of labour. But even if the new machines could not find plenty of work

through increased consumption, things would soon right themselves. The great capitalists would sustain the losses caused by the new machines lying idle, having to rust in the shop or being sold at a loss. All this could not diminish opportunities for work, as long as the surplus incomes found their employment in products of work. As gold or real money is itself a product of work, even the method of hoarding the surplus in the shape of this kind of wealth could not have the effect of creating a scarcity of work. The value, *i.e.*, the purchasing power of money would rise, but this would, in the first place, increase the purchasing power of wages, which, even under present circumstances, are slow to follow changes in the value of the circulating medium, and certainly would do so much less at a time when the absence of the reserve army of the unemployed would make resistance against reductions so much more effectual. The increased purchasing power of wages would again stimulate consumption and production, and the hoarded treasures would soon come forth again to change into new machines required by the increase of demand.

We have now seen that if the Rothschilds—and of course all those for which they here serve as a type—invested their nine millions in machines, or if they hoarded them in cash, there would be no social problem. The earnings of workers would increase to such a degree, that finally they would become the capitalists, and the Rothschilds would disappear. But the Rothschilds do not invest their nine millions in such a way. They neither buy goods for consumption with them, nor new tools of production, nor do they hoard them. What then are they doing with them? How can they employ them otherwise? The answer to this question gives us the solution of the great social problem of the nineteenth century.

That this answer has not been given before has, for the most part, been caused by the want of a clear and generally accepted definition of a little word, the word "*Capital*."

Definition of Capital.

What is Capital? I think that the definition which describes capital as wealth used for the production of new wealth, will cover most of those given by economists. Unfortunately

Capital, in the sense commonly used, in by far the greatest number of cases means something entirely different. Look over the stock exchange lists, in which a great part of what we call "*national capital*" is enumerated in its different forms, and let us investigate how much of this capital will stand the definition of economists. A great part of the capital in question consists of land. Land is no capital, improvements are. Even as it is, these form only a comparatively small part of the total of land values; but this part gets very materially reduced, if we deduct what has been taken from the land to make room for present improvements. If we only look at those improvements made by land owners, we shall certainly find a deficit against them, which probably would not disappear completely if we were even to add the improvements made by the tenants on their land. Anybody who doubts this has only to imagine that in the middle of England a piece of land had been left in the original state, that it had never been touched by human foot. Let us suppose it covered with immense trees, with a soil enriched to a great depth by the decay of former vegetation. Would such land not be worth a great deal more than the neighbouring farm, including all its improvements? If land to-day is worth much more than the land in primeval times it is certainly not due to the improvements made by landlords or tenants, but to those made by society, by the community, which built roads, canals, dykes to repel inundation, which made river regulations for the sake of drainage and irrigation; which enacted good laws and ensured public security; in short, it is the increase of population and the advance in science and art which have made the England we all know.

The claims of landlords to the right of ownership based on improvements made by them always reminds me of a joke which once happened in a grocery store. A man asks for a herring. He obtains it. He changes his mind and asks for a piece of cheese instead. As he is in the act of going off with his cheese, the shopkeeper reminds him that he did not pay for the cheese. "Why, I gave you the herring in exchange." "But you did not pay for the herring." "Certainly not, because I gave it back to you, don't you see?" The shopkeeper saw the correctness of the remark, but still felt puzzled as to how it was that, though everything seemed

all right, he had given away his cheese without getting any money in return.

The same conversation takes place between the people and the landlords, who follow the reasoning which philosophers of the Carey stamp teach them.

"You did not pay for your land," say the people to the landlords who make off with their booty. "No but you know, I gave the improvements which are worth as much as the original soil." "But you did not pay for the original soil." "I know, but I did not keep it, you know."

After land mortgages take an important place in the stock exchange list. They are no capital, whatever the wealth they originally represented, may have been. They are nothing but privileges empowering their owner to levy a tribute from the landowner. Part or the whole of the rent is handed over by the mortgagor to the mortgagee. As he who owns the rent is the real owner of the land, and as the one who pays it is nothing but a tenant under another name, mortgages may be considered as land property. They are therefore not capital.

We come next to government bonds. Part of them may be considered as capital, but only a very small part, viz., that alone which is invested in real products of labour, as for instance, in rail-road material, arsenals, ships, buildings, etc. How small the fraction thus invested, really is, can best be seen from the fact, that Leroi-Beaulieu on page 484 of his "*Essay sur la Repartition des Richesses*," wishing to show how large the common property is, and therefore certainly not underestimating it, gives a total of 4,000 million francs as representing the value of state and communal property in France, against a debt of over 30,000 millions, state, communes and departments being added together. If we consider that from these 4,000 millions perhaps half will have to be deducted for land, we retain only 2,000 millions, or one fifteenth of the public debt, as covered by real capital; fourteen-fifteenths are nothing but the market value of the privilege to employ the full power of the state for the purpose of collecting taxes from the citizens for the owners of the state bonds.

Railroads take an important place in the stock exchange list. A great part of these stocks and bonds represent land,

others represent water, that is an artificial inflation of the capital by the process called "watering of stock." * Even where this hydraulic process has not been resorted to, the rate of exchange will do the same thing in a different way. If stocks are above par, this means that the privilege of

* The American, Guy Hampden, in an article of "Vox Populi," entitled "Mostly Fools," as an illustration of Carlyle's famous saying, that the population of England was made up of thirty million souls, mostly fools, gives the following statement, adapted to America; which shows how spurious capital is manufactured:—

"According to the Manhattan railway company's last annual report, its net earnings for the year were 3,658,486 dollars. The joint capital of the two companies merged to form the Manhattan company was 13,000,000 dollars, but after the merger this was set down by the concern at 26,000,000 dollars. The dividend last year was 8.09 per cent., equivalent to 16.18 per cent. on the true capital. As the roads were built from the proceeds of bonds, the stock really cost the stockholders nothing. The city might have built the roads for 16,000,000 dollars, which, in three per cent. bonds, would have made an annual interest charge of 480,000 dollars.

"Let it be borne in mind that, by the report, the net earnings for the past year are 3,658,486 dollars and 480,000 dollars, deducted from that, shows a balance of 3,178,486 dollars which is the sum the people now pay the chief gentleman and his associates for the privilege of riding through their own streets, or a tax of a 1 $\frac{3}{4}$ cents on each ride.

"Every labouring man who rides daily on this road drops into the till at the gate ten cents each day; and in the three hundred working days of the year deposits there thirty dollars. Out of this thirty dollars, 10.50 dollars, more than one-third, goes as a yearly tribute to—what shall we say? To the genius which can devise ways of wringing wealth out of beggary? To the superior sagacity which teaches men how to hold a trust for the benefit of the people, and to convert it into an inexhaustible mine for personal benefit?

"That the ordinary workingman pays one-fortieth of his income to enrich the millionaire railway owner is clear. This the state has given to a few individuals, and with it the power to mass millions through the profit on a service it is her own duty to render at cost of supply. The gentleman who was once the largest stockholder in the elevated railway, said that the franchise alone was worth 50,000,000 dollars. This admission was a happy indiscretion for the community, and the reason why the whole population does not enjoy this valuable franchise by making the roads a municipal enterprise, is that 'we are mostly fools.'"

collecting a tribute from somebody, adds a certain additional value to the paper in question, which to be sure is not represented by real capital. In railroad papers it is the monopoly of transportation given to their holders by the state, and the taxing power it implies, which principally adds to their real capital value. There are other stocks on the list, the value of which is partly composed of such monopolies, for instance those of gas and water works, of wharves, telegraphs, telephones, etc.

A striking example of how great a part of the value of stocks at times consists of nothing but fictitious capital is furnished by the stocks of the New River Water Company in London. A short time ago, the sale of an entire share took place, which brought in the fabulous amount of about £95,000. Perhaps not more than £5,000 or £10,000 represent the real value of the tubes, reservoirs, etc., falling to each share. Let us even say £25,000, which would still leave £70,000 of fictitious capital, representing nothing but the market value of the monopoly, which empowers the New River Water Company to collect a certain percentage of water-rates from every house holder in a certain district of London.

Even with shares of ordinary industrial enterprises, enjoying no special monopoly, only a part of their value, as rated in the stock exchange list, can be considered as real capital. Not only have we to take off the value of the land they own, but also the value of other monopolies, viz., of protective duties which may have found their expression in the rate of exchange. It is certain, that this part of the value cannot be said to consist of real capital. It represents nothing but the capitalised right to levy a certain tribute from the people by means of the protective or other monopoly laws, which permit a certain addition to the cost price, beyond cost and ordinary profits.

That mining, oil, natural gas, and water power shares represent to a great part nothing but land ownership, does not need any further illustration.

This little review of the stock exchange list shows us, that the greatest part of that which goes under the name of Capital in this world is nothing but a fiction, when we apply the test of the real definition given by economists. A com-

pletely different definition will have to be found for this kind of capital. *Capitalised tribute rights* would perhaps be the best way of describing their real nature, as they are nothing but the market value paid for the right of levying certain tributes from the workers. They approach slave values in their substance, as the value of a slave may be said to consist of the market price for the right to appropriate certain parts of the wealth produced by the work of the slave, but even a slave represents much more the type of real capital, being raised by human labour for the sake of producing more wealth. The right to squeeze tributes out of so called free workers, which is sold and bought on the stock-exchange has not even this foundation. Those who own these rights, not only did nothing towards raising the workers who pay them their tributes but on the contrary, by the very exercise of these tribute rights they do everything in their power to lay obstacles in the way of raising a healthy generation of future workers. The greatest part of national capital can therefore justly be considered as slave flesh in its worst form, and the stock-exchange is for the most part nothing but a slave market.

Before 1860, the six million slaves of the United States, at a low average valuation of 350 dollars a head represented a capital value of about 2,000 millions, at which rate they figured in the statistical lists of the national capital.

After the war these 2,000 millions suddenly disappeared, as we are not in the habit of including the value of free workers in the lists of national wealth. Now it is certain that free workers produce more than slaves and that the real wealth of the United States not only has not decreased, but has increased by the liberation of the slaves. We thus obtain the remarkable paradox that national wealth sometimes increases in decreasing. Is it different with our slave values? If all monopolies, including the greatest of all, private landownership, were abolished, enormous values would disappear from the tables on which Mr. Giffen and his colleagues compute the amount of national wealth. At one stroke, more than one half of these enormous figures would be struck out. Would the nation really be any poorer? Certainly not; just as free men produce more than slaves, so, freed from the yoke of those heavy tributes, exacted

from them by the holders of tribute rights, called capitalists and landlords, free from those obstacles which prevent the free exchange of wealth and thus diminish the production of wealth, our workers would certainly produce more wealth than now. The nation would be immensely richer, though statistics made it much poorer.

Investments of Millionaires.

We return now to our friends the Rothschilds. I have no statistics showing the way their fortune is invested; but through the experience, which connections and nearly eight years of practical work in the banking and stock exchange line have given me, I know, that large capitalists as a rule almost exclusively invest their savings in those different forms of capitalised tribute rights, which henceforth I shall call by the name of spurious, fictitious or false capital. The reason is very simple. Investments in real capital are exposed to all the risks to which the productions of human labour are naturally exposed. From the first moment of their existence their decay begins, the rapidity of which can only be lessened, not annihilated by new additions of labour. Even where the destructive powers of nature have little effect, as upon the precious metals, which owe their high value partly to these qualities, human agencies have a powerful influence in rendering their possession more or less precarious. The best bank vaults have been broken into; wars and revolutions are apt to interfere with the safest methods of keeping this kind of wealth. The more capital fulfils its real task of serving labour as a tool for production, the greater will be the risk of loss. The uncertainties of business life are well-known. According to the statistics of Dunn and Co., the largest of all those commercial agencies giving information about the solvency of business firms, during the fifteen years ending in 1883, one firm in a hundred failed yearly. We can safely admit that for one firm which fails three liquidate with great loss to themselves, without neglecting their obligations to others. Thus one in twenty-five firms has to liquidate with loss every year, or the average life of commercial capital, as far as its owner is concerned, does not exceed twenty-five years. All those who have been in business, know what immense decreases in value take place, when a commercial

concern is forced to liquidate. Not only the value of long years of hard work spent in building up a trade, is completely lost, but the actual tangible values are sold for a mere fraction of their cost. According to Roscher, three large Manchester spinning establishments were sold in 1842, for £66,000, though they were valued at £212,000. This is even a good result, if we compare it with what we are witnessing every day, without suffering under an exceptional commercial crisis like that of 1842. In 1886 a clock factory of the Black Forest was sold for 75,000 Marks, though its cost, according to the books, was 600,000 Marks. In the same year the inventory of some chemical works at Berlin, costing 100,000 Marks was sold for 12,000 Marks to one of the creditors. The highest offer made by one of the tradesmen professionally buying such stock was 5,000 Marks.

Prospectuses of new stock Companies are very seductive as a rule ; so are the calculations of inventors or projectors, who try to induce capitalists into making investments ; but our large capitalists very rarely allow themselves to be caught by such seductions, unless monopoly rights of a secure nature are in question, or unless perhaps they see a prospect of immediately selling out at a profit to smaller capitalists. These are the fish who generally bite at such bait, allured by the expectations of large gains. The large capitalists know by experience, obtained through a better survey of the whole field, that the average chances of such enterprises are smaller than those offered by good securities, paying only small, but certain dividends. It is just as with a lottery. Every one knows that lottery tickets necessarily bring prices of a smaller total than the amounts paid for the tickets amount to. If it were different, it would not pay to start a lottery. Nobody would be crazy enough to buy up all the tickets in a lottery, unless he got them at a price which would leave a loss to the original sellers. The larger the investment the more certain the chances of loss are bound to be. Only small investors take to this special method, because, though they know that on the average they are sure to lose, they hope that they will belong to the fortunate few who win.

As the good securities are only to be found among the false capital, the interest of which is guaranteed by the ownership

of natural opportunities, indispensable to workers, or by the whole power of the state, large capitalists almost exclusively choose these investments.

A good proof of this has been furnished lately by Henry George's *Standard*, which, in one of the January numbers of 1890, gives the inventory of the fortune of a typical American millionaire, named J. D. Rockefeller. The greatest part of his fortune, reaching a total of 117 million dollars, consists of 68 million's worth of Standard Oil Company shares, the value of which consists for the greatest part of monopolies in oil wells or railroad transportation, land and transportation monopolies, *i.e.*, false capital. Real estate (ten millions) shares of the lead trust, the base of which is formed by mining property (land) and protective laws (monopoly), natural gas shares (land) bankshares, the security of which is formed by land or government bonds, town gas shares (mostly land and monopoly), etc., form the balance of the list. Only one million of the 117 seems to consist exclusively of real capital: shares of the Inman steamship line. Even here we have to take into consideration that the principal risk of the property falls upon the underwriters, mostly men who possess sufficient quantities of land or other good false capital, so that even here the security of the false capital is added. Of the whole 117 millions perhaps not twenty are real capital, about 100 are nothing but capitalised tribute rights, fictitious, false capital.

It is in this way that the nine millions ecomised by the Rothschilds are invested. They buy more land (already the French Rothschilds own 800,000 acres in France alone, and in Bohemia the Austrian Rothschild owns more land than the emperor) mortgages, government bonds, railroad bonds, mines and oil wells (land), etc.

This new investment gives no employment to anybody, for it only consists in the transfer of tribute rights, of slave property, from one owner to another, or in the creation of new rights of this kind, of new slaves.

The Solution of the Problem.

A farmer has not been able to sell his corn at a paying price, for though there is plenty of corn needed in the world, those who want it have to sell the product of their own

labour, before they can buy corn. Our farmer needs those products as much as they need the corn; he wants new boots, new clothes, a better house, etc. Why do they not exchange; those different producers, who need each others goods; those farmers, who need boots, clothes, houses; and those shoemakers, tailors, clothmakers, builders, bricklayers, carpenters, etc., who want bread? It seems so simple, and the want of money would in no way interfere with the exchange; for what are cheques and clearing houses invented for? If each gives a cheque to the other on the same day all the cheques are good, all the goods are paid for, and all the exchange accounts are settled.

There is a very simple reason for the dead-lock, quite different from all those usually given, but clear as crystal when you once have got the key to the riddle. It is perfectly transparent, when you once have seen the cat, as the Georgeites are in the habit of expressing themselves, taking as an illustration one of those pictures representing a landscape and a cat at the same time, where you can only see the cat after having your attention drawn to it, and henceforth can hardly understand how everybody does not see it immediately. The simple reason of the dead-lock is that the workers of this world owe interest and rent debts to the Rothschilds and their colleagues. To satisfy these debts they have to sell a certain amount of their products in the markets of the world. Now, as we have seen, the Rothschilds do not buy goods to the full amount of their credit on interest and rent account. The total of the deficit, which for the Rothschilds alone, a single family, or let us say four families, is nine millions a year at the present moment, is calculated greatly to exceed 500 millions, if all the non-consumed incomes throughout the world which are not invested in real capital and therefore do not buy goods in the market, are added up. Those who think this amount excessive will please bear in mind that, according to Giffen, the annual increase of national wealth in Great Britain alone amounts to an average of 200 millions. We can safely say that not one half of this increase consists of real capital, or finds its equivalent in a proportionate increase of houses, machines, ships, furniture, clothing, or merchandise of any kind. More than half is represented by an increase in the capital

value of land, especially building land in towns, irrespective of improvements, by the increased value of monopolies, water-rights, railroad franchises, &c., by the increase of foreign debts, through the accumulation of uncollected interest—for we must remember that a great many debts, especially those of states, are paid by new loans—and by similar fictitious values, consisting in nothing but a creation of new tribute-rights or in a higher valuation of the existing ones. Thus Great Britain alone furnishes 100 millions of the 500. The United States furnish at least half more, say 150 millions. A single boom of real estate—as they call over there those rapid increases of land values caused by speculation running ahead of natural increase of population and wealth—will sometimes largely exceed that amount, and though reactions take place there is not the least doubt that the real increase will reach at least 150 millions yearly, independent of improvements, especially if we include all the different kinds of spurious capital. A low estimate of American real estate, exclusive of improvements, will give for the United States alone 5,000 million pounds. An increase in value of not more than three per cent., certainly below the reality, would already give our 150 millions. This increase is no real increase, but only one of slave values.

As we see, Great Britain and the United States alone amount to one half of our 500 millions, and the balance of the world will certainly give a good deal more than the other half. Think of the enormous increase of land values in South America, Canada, Australia, and of that in our continental towns! Think of Russia's mines and oil wells, think of water powers, the value of which increases with the price of coals and the increase of industry! But before anything we have to bear in mind the enormous increase of state debts through inability to pay interest or to pay for new warpaint, powder, and balls, &c., things which represent no enduring value.* It is only the debt, and the increased taxing power its growing figures give to Rothschild and Co., which endure. Five hundred millions is certainly the lowest figure at which we can

*According to the Tenth Census of the United States the average annual increase of national debts of leading nations has been 489,335,079 dollars.

estimate that part of the yearly tribute exacted from the workers, which is not taken in real wealth, in actual products of labour, but is invested in the purchase of new tribute rights. The workers try to sell 500 millions worth of goods to satisfy the demands of their creditors, who do not buy one penny's worth of these goods, as they are already oversatiated by exercising the remaining part of their tribute rights, and as they do not want to invest their surplus in real capital, in the products of labour. The workers would very willingly buy or exchange with each other those 500 millions worth of goods; but they cannot do so, as they have to deliver the market value of these goods to their creditors, who do not take anything in payment, but new tribute rights or the money to buy them with.* Those of the workers who have got tribute rights to sell gradually have to give them up; others make frantic efforts to sell their labour or its products. Our farmer had to sell his corn under cost, because the deadlock caused by the millionaires has so narrowed down the market, that one producer tries to underbid the other, so as to be enabled to satisfy his Rothschilds, and not as a result of anarchical production or exchange, as Socialists believe; but because there is not sale enough for all products, a fact which creates a devil-take-the-hindmost competition, instead of a peaceful emulation to do better than others, without hurting them. Instead of a pleasant march, during which each endeavours to help his neighbour, we get the terrible run and fight for life we see around us, because monopoly has been walling up one after another of the doors permitting the passage from want to plenty.

* Henry George very successfully shows the fallacy of the wage-fund theory, the antiquated economic axiom that wages depend on the ratio between the number of labourers looking for employment and the amount of capital devoted to hiring them. In Germany he would have been forcing an open door, for our German economic writers have long ago demolished this theory. There is never smoke without fire, though, and we have seen now by what preceded, that wages, after all, under the present state of things depend on the amount of fictitious capital, but the relation is not a direct, but an inverted one. We might say with perfect correctness that the demand for labour stands in an inverted relation to the amount of spurious capital existing in the market.

Our farmer, as a consequence of his being forced to sell under cost, cannot meet his engagements, and has to take a mortgage on his farm. His neighbour, the manufacturer, whose profits have in the same manner gone down, through the low prices and the great and expensive efforts he has to make to find customers, by means of advertisements and travelling agents, tries to improve his chances by the introduction of new machinery, which enables him to produce more with fewer hands. Unfortunately for him he is not the only one who has that excellent idea. Thousands of his colleagues all over the world who are in the same position have done the same thing. A general reduction of prices takes place in consequence of the saving effected.

But consumption does not increase in proportion to the cheaper price of the goods, for the workers who have been employed to make the new machines are only temporarily occupied, whereas, those whom the improvement throws out of work are thrown out for ever and their wages no more help to increase consumption. On the other hand, our manufacturer and thousands of his brothers have had to sell government bonds or land they possessed, or worse still, have had to run into debt to their bankers, who take a mortgage on their property. This has decreased their income and their consumption, as that of our farmer has diminished by the amount of the interest of his mortgage. The Rothschilds, Vanderbilts, *Westminsters and Co. who finally get the government bonds and the land sold, or the mortgage bonds entered into by farmers, manufacturers, merchants, etc., do not increase their consumption, which before this had already reached its maximum capacity, or at any rate they do not increase it in proportion

*According to the tables of Thomas G. Shearman there are in the United States :

70 men possessing more than 37,500,000 dollars.					
90	„	„	„	11,500,000	„
180	„	„	„	8,000,000	„
135	„	„	„	6,800,000	„
1755	„	„	„	2,300,000	„
6000	„	„	„	1,250,000	„

55,000 men own more than half of the national wealth, which is estimated at 65,000 million dollars. Fifty years ago there was only one millionaire in the United States ; but beggars and tramps were equally scarce.

to the decrease in the consumption of the others. The deficit between consumption and production, or anyhow; productive power—for we cannot produce very long, when we do not consume—thus becomes worse from year to year. Our farmer finally has to give up the battle and leaves for the town to increase the army of the unemployed, either directly or by his competition for work. Our manufacturer becomes a bankrupt, his machines and stock are sold at one fifth of their cost price, his hands are thrown out of work; but the Rothschilds get their interest all the same, for the land is there, and whoever is going to use it has to pay them an increasing tribute. Perhaps the broken man will open a little shop somewhere where there are already more than can subsist and thus become one of the parasites living on the work of others; for every penny, which has to be added to the cost of goods to support merchants and shopkeepers beyond the amount really necessary to pay in the most economical manner for the work of distribution, is waste and food of parasites.

Causes Delaying the Catastrophe.

Parasites, too, have their uses in this world of ours. There are certain insects, which would destroy every leaf on earth, if some other parasite did not find it convenient to lay its eggs into their larvae, and if the young stripling coming forth from the same did not begin life by quietly eating up his lodgings. *Parasite against parasite.* It seems to be a law of nature holding good even in our social world. The big parasites who by means of their interest and rent proboscis suck the life blood from the social organism would ruin us much faster even than they do, if the smaller parasites did not suck back into it some of the life sustaining liquid.

There are other parasites in great number, which help to put off the inevitable catastrophe. Foremost among them is the criminal and the military parasite.

W. S. Gilbert furnished a splendid piece of satire in the *Times*, in saying that he never could understand the popular prejudice against burglars, who give so much occupation to innumerable employés of the telegraph, the police and the railroad; sometimes also to surgeons, coroners and grave-stone makers. All these the burglar keeps busy before he is

caught. As soon as he is in safe keeping, the services of a complete army of lawyers, judges, small and great jurors, reporters, jailers, and prison administrators, are in requisition. He certainly does more good than evil.

And our armies and fleets! How many hands they keep busy, which otherwise would increase the army of the unemployed! And the enormous sums spent for fortifications, armaments, new rifles, of which a new, more deadly form, is continually superseding that which has but just been brought out! Do we not owe it to these and similar causes, that we are enjoying, what we call a wave of prosperity at the present moment? We are modest; such a prosperity, such an improvement in business would, perhaps, have been called a depression 40 years ago; but let us not be ungrateful!*

Depressions and Improvements in Business.

I have to explain here, how it is we have these intermissions between commercial depressions, for which even the causes just mentioned would not wholly account, if they were not reinforced by auxiliaries of great power.

These auxiliaries are ignorance and hopefulness. Simple though it is, when once understood, the real cause of commercial depressions is not known. Even great thinkers like Henry George, only partially realize the real cause. In "Progress and Poverty" he sees it in the forcing up of land-values, by speculation, which in discounting the future, creates an artificial dearth of land, rendering it impossible for labour and capital to get access to land on paying terms.

* I have just come across the following remark in a letter written by the Rev. Mr. Harold Rylett to George's *Standard* of Feb. 5, 1890, which confirms my views of the modesty we have acquired in regard to our estimate of business improvement. Mr. Rylett writes: "For my part I take leave to doubt whether this much vaunted improvement in trade is a very serious affair. In the poor-law district in which I reside, and which is regarded generally as one of the most prosperous communities of working people in England, we are confronted with a fact, such as this—that in 1888 there was in Hyde one pauper in every 110 of the population, while in 1889, the year of improved trade, we had one pauper in every 102 of the population. And this district was not singular in this respect. Neighbouring districts were affected in an exactly similar way."

Everybody is more or less influenced by his surroundings, and we generally form our judgment on what we are in the habit of seeing. It is no wonder therefore that an American, who perhaps had never been out of his native country, should be naturally inclined to look at the world in the light of his native surroundings, and to judge general by local conditions. Because the rise of land values in the United States seems to be and partly is a cause of commercial depressions, Henry George sees here the universal cause. Even in the United States, however, what seems to be the cause partakes more of the nature of an effect accompanying the real cause and, as very often is the case, intensifying the influence of the cause through the workings of the effect.

To begin with, I think it is an error to confound the rise of land prices with the rise of rent. Both are subject to totally different laws. Rent rises, when more rent can be squeezed out of the tenant. Speculation cannot force it any higher, nor can tenants as a general rule reduce it any lower. In the first case tenants would not be able to pay and as landlords rather take something than nothing at all, they will let at what they can get. In the latter case, though by combination or law we may sometimes see an exception to the rule, as a general thing competition is sharp enough to finally overthrow any such artificial means of regulating rent.

The price of land as a rule corresponds with the sum obtained by multiplying the rent figure by 100 and dividing the total by the rate of interest, obtainable for this kind of investments. This rate of interest differs very much in different countries and periods; but it is generally below the rate of mortgages—because these do not have the advantage of advancing in value, which land enjoys—unless the difficulties of collection add a risk premium (insurance) to the regular rate. In Germany, where good mortgages pay only four per cent. and where the rise of rents of agricultural land has been a little more than one per cent. for long periods, accompanied by great safety and little trouble of collection, the rate at which such rent is capitalised is about two per cent. below that of good mortgages. It is about two per cent. The honours and the influence connected with land ownership tend to lower the rate below the natural level. It would be lowered still more,

RENT, INTEREST, AND WAGES.

if the ease with which mortgages can be sold, specially if converted into the shape of bonds did not operate a little in their favour. In Ireland, where political causes have reduced the certainty of undisturbed rent collection, and the hope of a rental rise, the capitalisation of agricultural rent takes place at six or even seven per cent., as some of the purchases under the Ashbourne act show, where from fourteen to seventeen years purchase was paid. Out of this six to seven per cent. not less than three per cent. consists of risk premium, *i.e.*, insurance, and expenses of collection. Though these facts furnish us a fairly reliable rule for the calculation of land values, we cannot always depend on them, for in speculation we have a disturbing element of great uncertainty. Sound speculation will not disturb the working of our rule, for it is nothing but an estimation of the rate of increase likely to obtain for the land in question. If experience shows that this rate, instead of only reaching the average of one per cent. in Germany, is likely to be three per cent, capitalisation would probably take place at one per cent., or less, or in other words 100 years purchase would be paid. But speculation for the most part cannot be sound, because it is impossible to estimate the rate of increase in the majority of such cases, where an exceptionally great increase is expected. In these cases the common way of calculation is entirely abandoned. The selling price of land is no longer based on a capitalisation of present, but on that of future rents. When the price paid for land near towns is calculated, it is very often not based on the small agricultural rent it brings, which may be even eaten up by the taxes, but on the estimate of a future rent obtainable for building sites. It is the same with agricultural land in new countries, where land beyond the margin of cultivation, which at present would not pay any rent, is held at prices based on rents expected at some future day, when such land will be desirable farming land.

Let us see now, how such speculation affects capital and labour.

In speaking of capital, of course we here mean real capital, for it is quite certain, that land cannot be too dear for spurious capital, as it is the supply and demand of the latter which creates the prices of land, for these are nothing but the market value resulting from supply and demand at

THE PROBLEM SOLVED.

which tribute rights, or the privilege of exacting present or future black mail from workers are bought and sold. The larger the amount of spurious capital seeking investment, the greater the demand will be and the higher the prices which have to be paid or the lower the rate of interest, at which rent will be capitalised. On the other hand the quantity of spurious capital seeking investment depends on the unconsumed incomes of spurious capitalists and thus the very unconsumed incomes which are the cause of the depression determine its intensity by their quantity. We now see how high land prices are nothing but the effect of those causes from which depressions spring.

When we come to investigate the effect which booms have on real capital, we shall see how the effect strengthens and intensifies its cause.

In the times of booms, the general cause of which lies in the great quantity of spurious capital looking for investment, and the effects of which are specially observable wherever the chances of future increase promise a good average investment, the extraordinary competition of spurious capital will create extraordinary prices in all localities of this kind. Capitalists are only men and men mostly act like sheep, jumping where others jump and turning aside where others turned aside. This causes prices to rise suddenly and for some time makes them continue to rise. The law of inertia, by which any motion has a tendency to continue after its cause has ceased, operates in business evolutions as elsewhere. As long as the increase has been rational, viz., not exceeding the real values at which rents will sell in the near future, the large capitalists, *i.e.*, the owners of spurious capital, will buy. When this point, which their larger experience in such matters will show them better than the ordinary business man, is reached, they will stop and if they hope to buy back cheaper at a future period, they even will sell. It is the small fry which for some time yet continues the upward motion. It seems such a splendid thing to them, this easy way of making money, which appears to be without limit. Why invest your money in business, in real capital, when false capital brings such profits? A, who has shares in an industrial enterprise, sells them to buy land. B, who has some money lent to business men takes it back

to go in for land speculation. C, a manufacturer, who intended to enlarge his factory, thinks he had better put it off and use his money to buy some town lots, which he soon expects to sell at a large profit. D, a farmer, who has saved some capital, which he was going to use for the improvement of his farm, decides to wait and meanwhile to buy some land in his neighbourhood, which he does not need, but expects to sell, when it has risen in price. He even buys three times, as much as his means allow him, taking a mortgage for the balance. It is in this way, that the formation of real capital is prevented in hundreds of cases in which savings, which would have been used to give employment to workers, find investment as false capital, giving work to nobody and finally only increasing the unconsumed tribute rights of a surfeited minority, the only ones in most cases who profit by the boom, as when the inevitable crash forces the dupes to sell their boom lands, they buy back at lower prices, what they sold when prices went beyond their legitimate level.

This is the way in which speculative risings of land values keep capital from investment in business enterprises and labour from getting employment.

It is not because rents are too high, for they never can be higher than workers can afford to pay and it is only rent not the price of land, which has to be looked at, when we speak of labour not being able to get at the land.

It is not because, as George says, capital does not obtain the minimum return below which it cannot be preserved—for even in the best times capital will not offer itself for investment, if it only gets enough to pay for its preservation, as long as land or other monopoly investments will afford a rate of interest beyond the cost of preservation—it is because in the periods of booms capital more than usual shuns real investments in active production, as false investments in the purchase of tribute rights seem to offer so much better chances. It is because the real causes of the depression have been greatly strengthened by the effects of land speculation.

When wars, by means of wholesale destruction of wealth, temporarily create a large consumption which for the time compensates for the deficit caused by the under consumption of millionaires, we generally find a great activity in business,

which never can last long, as the new loans made by the states to pay for the expenses and devastations of the war have only increased the volumes of false capital and of its unconsumed revenues.

Henry George is completely mistaken, when he tries to explain the cause of depressions ascribed by him to speculation in land values, by assuming that the high price of land prevents the production of raw materials without which industrial workers, who would willingly spend their labour upon them, or exchange it against them, have to lie idle. Anybody, who ever observed the markets during industrial depressions, knows very well that at no time are raw materials so abundant, so cheap and accessible as at such periods. There is no department of production, in which the suffering is greater in such times and in which the workers try harder to get rid of their products at the lowest prices, than in those of agriculture and mining. How then can anybody say that the depression is caused by the inaccessibility of raw materials?

In fact, this is just one of the remarkable features, which distinguish modern depressions from those of ancient times. Formerly, when bad harvests, war or other causes impoverished the husbandman, so that he hardly had enough to eat for himself, and could not bring corn to the towns there to be exchanged against the products of industry and commerce, it was easy to account for depressions. Henry George, then, would have been borne out by the facts, if he had ascribed their origin to the inability of the farmer to produce the raw materials without which industry and even life itself are impossible; but how is it admissible to come forward with such reasoning at a time in which fields go out of cultivation because the immense stocks of corn have pressed down its prices below the paying limit?

When Pharaoh had the well known dream about the seven lean and the seven fat kine, the task of Joseph who had to explain the dream was a comparatively easy one. The fat kine were fat years, the lean kine signified years of scarcity and this interpretation once accepted, it was not difficult to provide a remedy for the impending depression. All the wisdom of Jacob's son would have been at fault however, if anybody had told him, that a time was coming, when people

would suffer hunger, because there was too much grain in the market, so that the storehouses could not hold it. Would he have been satisfied with an explanation which told him that the real cause of the evil was that labour and capital could not get at the land? "Why, how is it, then that there is such an enormous stock of corn?" he would naturally have asked, "If the calamity comes from too great a stock of corn, which has to be disposed of, before people can find new work, how is this state of things to be remedied, if labour and capital can get at the land to produce a still greater stock of this unsaleable corn? I can see it, just as little as Joseph. Will Mr. George explain? I have dwelt at some little length on his theory of depressions, because even though his own explanations do not cover the field, he at least sees and shows the hollowness of other theories, by which sometimes people try to account for the prevailing business epidemic, and because when a clear head like his fails to pierce the darkness surrounding this problem, it need not astonish anybody, that the great body of business men have no idea at all of the real cause underlying commercial depressions.

General Ignorance of the Real Cause.

Ask any manufacturer, merchant, shopkeeper, what he thinks might be the true cause of the stagnation in business and ten to one he will tell you that there is no confidence in the maintainance of peace, that this absence of confidence prevents capitalists from embarking in new business enterprises, and makes everybody afraid to take in more stock than he can help. Besides, there are the enormous expenses of governments for armaments, which bye and bye get so heavy that they are bound to crush us in the end. "How can we afford to keep millions of our best workers idle, feeding them, instead of them feeding us?" It is strange, that these people never try to account for the remarkable fact, that it is just when the greatest armaments are made, or even during great wars, when more workers are taken away than ever, that confidence comes back, and business revives. Logic is not the habitual companion of fear or hope. Both once in possession of the field, defy all attacks of sound reasoning and generally succeed in constructing their own groundworks of

sophistical reasoning. There are mental epidemics as well as physical ones. One of the most curious examples of these, which is very little known, was observed in Würtemberg during the month of March, 1849. On a certain day of that month, the 25th, all over Würtemberg people thought the French were entering the kingdom, though no French army crossed the frontier. There was almost no telegraph; but all over a country, which required days to get its different parts into communication, people armed on that same day and began marching westward, to meet the enemy or fleeing eastward to avoid him. In towns and villages, none of which knew anything of the other, the same report sprang up at the same time, without anybody knowing who started it. The highly interesting facts were even collected in a little pamphlet "*Der Franzosenkrieg*," Samstag 25 März 1848 (Erhard Burg, Reutlingen) as an illustration of one of the most extraordinary cases of mental epidemic spreading, as it were, on the wings of the wind or the waves of ether.

Extensive armaments, a sudden extraordinary increase of railroad building or any other cause, suddenly throwing money into the market, which otherwise would have been kept back, as the common parlance goes; in reality turning into real capital what otherwise would have been invested as false capital—cause a revival in a few branches, which through the ramifications of trade extends to others. As the general idea has been all along that the depression was only caused by lack of confidence and that business must get again into its old channels as soon as confidence revives, this slight improvement apparently brings the long expected turning of the tide. Hopefulness spreads contagiously to all quarters. Shopkeepers give larger orders to travellers to be better prepared when orders will flow in, travellers report to headquarters a general revival of trade; merchants take in larger stock of goods; manufacturers engage new hands, put up new machines, build new shops, etc. All this increases consumption and further revives trade, thus showing to the business world that their optimistical views were justified. Effect strengthens cause and cause produces new effect. The long expected period of renewed activity and prosperity has at last returned and all is well that ends well.

The Relapse.

But the real causes of the depression have been at work all the time with ever increasing intensity. The new debts made by governments and private firms, manufacturers, enlarging their factories with capital raised on mortgages, or railroads and canals built with the capital of the millionaires, have immensely increased spurious capital and the incomes flowing from it, without materially increasing the expenditures of their fortunate possessors. In spite of the large government expenses, or of the immense amounts of false capital suddenly changing into real wealth by the enlargements of manufacturing and transportation facilities, the thousands of millions of capital non-consumed incomes soon make the increase of false to exceed that of the real.

The natural consequences are inevitable. Shopkeepers begin to see that orders do not come in as fast as they thought they would, that they fall off, in a quite unexpected manner, which is the more disagreeable, as on the strength of the revival, new competitors have established themselves in the place, who take away part of the trade and reduce the small profits still more. As a consequence travellers are sent back without orders. Merchants and manufacturers send away part of their workmen. This further decreases consumption. Debts made on the strength of the expected permanence of the revival become due and are not paid. Notes are protested, banks stop payment. The panic which now begins to spread, takes an epidemical character from the same cause, which intensified the effects of hopefulness. The crash sets in, beginning a new period of depression, exceeding the preceding one in length, as this has exceeded the one before.

The effects of compound interest by their very nature are bound to continually intensify the real cause of the depression. If it was not for the waste caused by wars, armaments, pauperism, criminality, liquor shops and overcrowded professions, which prevents prices from reaching a lower scale and affords chances of turning part of the newly formed false capital into real wealth, the creation of which gives employment to workers; if it was not for this waste a catastrophe of the greatest magnitude would have arrived long ago, com-

pared with which all similar calamities the world has seen would dwindle into nothing. It is sure to arrive in spite of all we may do to delay it. There is no fighting against demon "interest," and his son "compound interest." Perhaps, unless a terrible war, such as the world never before saw, give as another breathing time, the present revival will be the last of its kind, will have no successor, when the inevitable crash will have gathered it to its forefathers.

Changed Character of Depressions.

To fully understand this, we must clearly bear in mind, that commercial depressions have completely changed their character within the present century, the era of the Rothschilds, Vanderbilts, Goulds, etc. Depressions of old times were easily accounted for. When a thirty years war devastated Germany, so that the husbandman was without cattle and seed, and was thus disabled from producing the necessities of life, he certainly did not get enough of them to exchange the surplus against the industrial products of the town and the difficulty of finding work for the inhabitants of these was easily accounted for. When the swindling operations of a Law plundered great numbers, depriving them of the capital with which they had carried on their work, and wasting it in profligate expenses, the stoppage of business which followed, was not very astonishing in its nature. Our present depressions are the consequence of entirely different causes, causes which formerly were followed by general prosperity. It is the continuance of peace, the great progress made in all the arts and sciences, as well as in the methods of work and of government, which are the causes of our depressions. It is the relapse into barbarism, war and its destructive forces which in our days are the factors of renewed activity. But how is it that all of a sudden we experienced a prolonged depression, setting in for fifteen years, such as never was known before in times of universal peace, hardly interrupted by temporary improvements—improvements which formerly would have been considered as depressions and which only appear as improvements when we compare them with what went before? The explanation is not a very difficult one. From 1815 to 1841

the void made by a war of twenty years duration, a war which had raged through all Europe and partly even in America, had to be filled up. Besides, the invention of the steam engine was the beginning of a new era in technical developments, necessitating immense sums for the erection of factories, machines, etc. The effect of the unconsumed incomes upon trade not being felt as yet, investments of this kind offered less risk than to-day, and the unconsumed incomes of the few great capitalists were mostly directly or indirectly invested in channels, where they did not impede the free exchange of labour.

From 1841 till 1860, the era of railroad building, investments in this department gave a new outlet for the unconsumed millions. Though one of the principal foundations of the spurious capital of our time was thus laid—not only because of the capitalisation of transportation monopoly rights, but mainly through the impulse given to agriculture and industry and its effect on land values, the present effect, notwithstanding, was a favourable one, for the unconsumed incomes found their investment in real capital, in the work of human hands.

1860 to 1873 is a period distinguished by a series of the most destructive wars known to modern history, and by their immediate effects. The Italian, German-Danish, Prussian-Austrian, German-French wars on the European continent, and the Secession war of North America caused such an immense destruction of wealth, necessitated such unheard of emissions of government loans, that the savings of capitalists found an outlet into the channels of actual wealth production, but only by creating future false capital in such immense quantities as had never been dreamt of before at any period of history. Especially so if we add the great development of the American railroad system with its unprecedented gifts of millions of acres to the capitalists, the foundation of vast accumulations of spurious capital forming the fortunes of thousands of American and European millionaires.

Here we have got the reason, how it is that since 1873 we have entered upon a new era of commercial depressions totally different from its predecessors. We are reaping what the preceding periods have sown. That which had been real wealth then, giving employment to labour—labour

which if it had been better organised would have resulted in a material improvement of wages and general well being—has now turned into spurious capital, which with its quickly narrowing coils threatens to throttle us faster and faster.

Picturing the State of Things.

We can compare the course of events to the descent of a mountain stream, which rushes down a continually steepening decline.

In the period represented by the years 1815-41 we see the stream wending its way slowly through a wide expanse of country of a gentle decline, which for a long series of years has been parched and dried up by the heat of the sun and hollowed by volcanic eruptions (wars and revolutions).

A dam built across the bed of the stream (building of machines and factories) had helped to prevent the descent of the stream. It could not do so for ever. The stream rose and rose until the edge of the dam was reached, when suddenly it gushed over the top of the dam and formed a waterfall (crash of 1841). The stream continued its downward course; but it could not make any headway, as an immense hollow (building of railroads), which presented itself on its way, had to be filled up. When the hollow was filled a new dam was built, resulting in a new waterfall (crash of '56). The force of this crash was greatly increased because of the participation of a great deal of real capital in railroad building, which was withdrawn from other branches of production. Its owners, as usual, took the risks (the shares) and lost their capital, whereas the spurious capitalists for the most part took the safer mortgages. After this another hollow had to be filled (wars of '60-71) when finally the border of the volcanic territory, where such natural cavities abounded, was reached and the stream approached a steeper part of the mountain. The descent did not take place immediately, however, for from '71 till '73 a high dam was built along the edge of the abyss. (Over-stimulation of production; limited Companies springing from the soil like mushrooms). At last the edge of the dam was reached and the greatest fall yet known, a perfect Niagara, was the consequence. The turbulent water had destroyed the dam (crash of '73). From

this moment the stream went down the incline faster and faster with a very steady current, for the lakes served as regulators of the water supply. (Accumulations of spurious capital during the preceding periods forming the body of the stream of ever-increasing unconsumed incomes.) At the end of 1888 the occurrence of a hollow in the bed of the stream (war armament expenditures) which for a moment stopped the descent of the waters, or rather weakened the current, immediately gave courage again to the dam builders undaunted by previous failures and the result has been a new lake with comparatively quiet waters which, however, is rapidly approaching the edge of the dam and preparing for a new plunge. Whether we ever shall have another stoppage of the roaring waters, before they reach the sea—the final crisis—nobody can tell.

A Question Concerning All Classes.

We can now clearly see, that we are dealing with a question which is far from concerning the manual labourer alone. There is no occupation, in which men work for their bread, which is not affected. The most difficult question a father has to ponder over nowadays is : "What branch of occupation can I advise my children to take up?" There is none, in which the ever-deepening chasm between production and consumption and the scarcity of paying work accruing therefrom, has not narrowed the doors of entrance to such a degree, that only a limited number of specially favoured applicants can get admission.

Commerce? I translate an advertisement from Number 196 of the "Leipziger Tagblatt" of 1888.

"After having obtained the privilege of carrying on a bookseller's trade in Leipzig as far back as 1873, I ventured to open a little bookstore, middle of last month. After three advertisements in local papers and some circulars sent out, I already had the good fortune to obtain an order from the 500,000 inhabitants of Leipzig and surroundings to the amount of 60 pf. say sixty pfennige (7 pence). I connect the bold hope with this interesting and glorious result, that the good will of my esteemed fellow citizens will in the course of a further month perhaps increase to a total order

of 65 pf. and I herewith humbly offer my services, especially to the gentlemen of the university."

But why did the man begin business on his own account, if there were booksellers enough in Leipzig? Why did he not rather take a place as a clerk?

Let me answer by the following report taken from the "*Leipziger Zeitung*," an official paper, during the year 1889 and dated from Berlin.

"About 67 per cent. of commercial employees have a monthly income of 100 mark (£5) at the outside; 18 per cent. 100-200. All the time there are 29 per cent. out of work, almost a third of all capable commercial employees."

The liberal professions? From 1874-84 the number of students in German universities has nearly doubled. In 1874, when there certainly was anything but a scarcity of students, the number of all German students was 13,800. In January '84 it reached 27,454. Academies of agriculture, and forest culture, architecture and technical pursuits in general, or of commerce are not included. Medical students increased from 5,000 to 6,500 within 2½ years. Law is overcrowded, etc. In France the number of female teachers waiting for employment in 1887 was 12,000. Their number is continually increasing. There are always ten candidates for one place. *The Times* of 10th August, 1882, says:—

"The truth is, in any instance whatever, a man of only ordinary abilities and under only ordinary circumstances, enters life only to make the discovery that everything is against him; whichever way he turns, he finds a lion in the path. Competition of course he finds, for there are sure to be many like him, and some a good deal cleverer, perhaps less scrupulous, too. He finds it impossible to make a fortune, or even a competence, or even to pay his way. He finds it impossible to make good friends, impossible to rid himself of burdens, impossible to keep up an appearance, or *even to be* quite honest, he will perhaps come to think. He has generally to discover before long, that the world, to use an old phrase, is made up of flats and sharps, and that he comes under the former head. There is not a trade or profession that does not offer the same iron wall of obstruction that agriculture does now."

It is the same everywhere. The doors which lead to the

opportunities of making a decent living become narrower from year to year, as monopoly with increasing rapidity goes on walling them up with the bricks "compound interest," the material of which is formed by "rent" from the quarry "private land ownership." Wilder and wilder the battle of life is raging between the masses in the hall, all anxious to find an outlet through the ever-narrowing door. There is nobody so high placed, so well to do, that he or his offspring may not be drawn into that terrible vortex. It is not a question of the lower classes—low only, because we have trodden them down—it is one concerning every one among us, even those who are responsible for the walling up of the doors, the monopolists; for unless they throw open those doors of their own free will, the pressure from within will become so great that the walls will be forced out, crushing them in their fall and with them a great many other better things worth preserving.

In less than twenty years the fortune of the Rothchilds, Westminsters, Astors, etc., will have doubled again. Though the increase of spurious capital competing for the comparatively limited amount of safe investments will press down the rate of interest, it will never go down as fast as the capital increases. I shall show this in the next chapter. We cannot stand the pressure of the 500 unconsumed millions of our day, how shall we be able to exist under the immense increase of the weight, which is as sure to crush us, as mathematical laws are based on eternal truth? If the causes of depressions, here set forth, which at the same time are accountable for the terrible state of misery and confusion, which we designate when we speak of "the social problem," if these causes have been correctly interpreted by me, then it must appear clear to everybody that none of the remedies our statesmen are applying and proposing even approach the real seat of the evil. The only remedy, the only way of salvation in this case can be found in cutting off the root of the evil, the spurious capital, which can only be done by digging away the soil in which it grows INTEREST and the private ownership of RENT, the bed rock of the soil.

How this is to be done and what the effects will be, is the problem I shall endeavour to answer in the following chapters.

History of this Theory.

Is my interpretation a correct one, or am I mistaken just as all my predecessors have been? I must leave it to the reader to decide. I can only say, that after having first published these theories in 1884, in "Auf friedlichem Wege," (Pierson, Dresden) I have become still more confirmed in them, only making slight modifications, as in the course of years discussions with economists, business men and socialists, as well as careful reviewings of the lessons taught by thirty years of practical business experience in different parts of the globe, gave me a clearer insight into the workings of social machinery. Not only have I never met with any argument which could in the least shake the foundation of my conclusions, though public discussions in which professors of political economy at universities or of related branches took a part, gave every opportunity of showing my errors, but I have the great satisfaction of finding, since I first took up these ideas, that part of my theories had been put forth by eminent economists, in one case as far back as half a century.

It was the socialist Proudhon, who fifty years ago found in interest the primary cause of commercial depressions. In "Qu'estce que c'est la Propriété"? page 152, he says:

"The primary cause of industrial and commercial depressions therefore consists in interest of capital, that interest, which all antiquity united to stigmatise under the name of "usury," if it serves to pay the price of money, but which they never dared to condemn under the name of rent, or profit; as if the nature of the things lent ever could legitimate the price of the loan."*

* R. G. Sillar, who wrote a number of papers against interest, without understanding that interest can never be attacked otherwise than by its base: private ownership of land, says in a paper he read on *Usury* in '82:—

"Until the reign of Queen Elizabeth the word *Usury* was always used to describe money paid for the use of money. Money lenders were disreputable, and carried on their trade under the names of scriveners or goldsmiths, and the word 'bank' was apparently unknown in its present sense. Shakespeare has no such word. The Greek word of the bible of 1611, in 'Wiclif's bible,' 1380, it is rendered 'borde.' When, however,

He came to this conclusion, after having shown that interest was the cause that the workers could not consume the products of their labour in proportion to their production, as the price of the same was raised by the amount of interest—in the wider sense, of course, which he gives to the word—so that the worker possessed the purchasing power of only a part of his products.

"If 100,000 journeymen printers," he says, page 151, "are able to satisfy the literary wants of 34 million people, and if the price of books is only accessible to a third of the consumers, it will be clear that these 100,000 workers will produce three times as much as booksellers can sell. To prevent production from exceeding the demand, it will be necessary either that they stop work two days in three, or that every week, every month, or every three months, a third of them take their turn at the work, which means that they do not live during two-thirds of their life. But industry under the influence of proprietors does not proceed with this regularity; its nature requires it to produce much in little time, because the larger the mass of products the quicker they are finished

the law was passed, it was necessary to coin a word for legal usury and we find the word '*interest*' first used in a public document in 1623 in an act of James I. It was most likely used privately before this, for Shylock says, 'My bargains and my well-won thrift, which he calls interest'; and he apparently says this with a sneer. 'Truth has as many enemies as a herring in shoal water,' says a modern writer, 'but her worst and subtlest is equivocate,' and so it has proved in this case. Hume rejoices in this change of name; he says 'by a lucky accident in language, which has a great effect on man's ideas, the invidious word *Usury*, which formerly meant the taking of *any interest* for money, came now to express only the taking of exorbitant or *illegal interest*.' . . . This change of name is not new. The latin name *Usura* avoided the word *Neshek*, which signified *biting*, and they substituted the word *Tarbeth*, which means *consideration* or *usance*. It was changed also on the continent of Europe, as is evident from the satire, 'on ne prête plus à l'usure, mais tant qu' on veut à l'intérêt.' Amongst ourselves even now it is amazing to what an extent the idea that Usury means excessive interest prevails, and there are many people who have their money in loans, in bonds, and debentures, who would start if they were told they were Usurers."

and the lower will be the cost price of each piece. At the sign of a sale of the stock, the workshops fill, everybody goes to work; trade prospers and governor and governed praise each other. But the more activity is developed, the more holidays are created. The more we laugh, the more we shall have to cry. Under the government of property the flowers of industry only serve as funeral wreaths; the labourer who works hollows his tomb. While industry remains idle, interest goes on; the employer naturally tries to keep up his production by diminishing his expenses. Reductions of wages are coming now, introduction of machines, the irruption of children and women into the trades of men, the depreciation of manual labour, bad workmanship.

“Production goes on as yet, because the reduction of costs permits the market to extend, but this does not last long, because cheapness of production being based upon the mass and rapidity of production, production tends more and more to get ahead of consumption. If we now get a stoppage of production kept up by workmen, whose wages hardly exceed their daily wants, the consequences of the property principle become terrible. There are no savings, no accumulated small capital, which permits them to live a day longer. To-day the workshop is closed, to-morrow there is fasting in the street, the day after to-morrow it will be death in the hospital or the meal in prison. New accidents happen, to complicate the terrible situation. Through the accumulation of goods and through the utmost reduction of prices, the employer soon is disabled from paying the interest of the capital he is using. The frightened shareholders hasten to withdraw their funds; production ceases, work stops. After this people are astonished, that capital leaves trade for the stock-exchange; and one day I heard M. Blanqui complain bitterly of the ignorance and unreasonableness of capitalists.”

Under property Proudhon understands interest or rent bearing values, not private property in general, as very often is believed. It is in this way that his famous “*La propriété c’est le vol*” is to be understood.

Von Kirchmann and Rodbertus-Jaetzow have also got at a part of the truth. Rodbertus, however, makes the mistake

of believing that if employers and capitalists, including landlords, did not get a continually increasing share of production, if wages increased in proportion to the productive power of work, depressions would be a thing of the past. Production is increasing so fast, that even then capitalists would not consume their share and stoppages of work, depressions, would be the inevitable consequences. At any rate it is not by artificially increasing the share of workers, as Rodbertus proposes, that we shall ever find the right way out of the evil, but by reaching it at its source. Weeds are not effectually destroyed by cutting off their flowers, but by digging out their roots.

The source and the root of the social evil can only be reached by getting at "rent", as I shall try to prove in the next chapter.

