

The Political Economy of Silvio Gesell: A Century of Activism

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ABSTRACT. [Silvio Gesell](#) (1862-1930) pioneered a version of the [market](#) economy that was about competitive entrepreneurship but not about capitalism. The financial interests of the hoarders of scarce bank financing and those leveraged with speculative land dealings were to be sacrificed for the greater good of a nation of free and enterprising men and women. Gesell was a radical reformer and quite a famous one, having received more than a respectful mention in John Maynard Keynes' *The General Theory of Employment, Interest, and Money*. Keynes dubbed Gesell a non-Marxian socialist. Gesell founded the Free Economy school, which is undergoing a renaissance today in Eastern Europe as a possible model for a redesigned transition economy.

IN 1891 SILVIO GESELL (1862-1930), a German-born entrepreneur living in Buenos Aires, published a short booklet entitled, *Die Reformation im Munzwesen als Brücke zum sozialen Staat* (Currency Reform as a Bridge to the Social State). This was the first of a series of pamphlets presenting a critical examination of the existing monetary system. It laid the foundation for an extensive body of writing inquiring into the causes of social problems and suggesting practical reform measures. His experiences during an economic crisis at that time in Argentina led Gesell to a viewpoint substantially at odds with the Marxist analysis of the social question: the exploitation of human labor does not have its origins in the private ownership of the means of production, but rather occurs primarily in the sphere of distribution due to structural defects in the monetary system. Like the ancient Greek philosopher Aristotle, Gesell recognized money's contradictory dual role as a medium of exchange for facilitating economic activity on the one hand, and as an instrument of power capable of dominating the market on the other hand. The starting point for Gesell's investigations was the following question: How can money's characteristics as a usurious instrument of power be overcome, without eliminating its positive qualities as a neutral medium of exchange?

He attributed this market-dominating power to two fundamental characteristics of [conventional money](#). First, money as a medium of demand is capable of being hoarded, in contrast to human labor or goods and services on the supply side of the economic equation. It can be temporarily withheld from the market for speculative purposes without exposing its holder to significant losses. Second, money enjoys the advantage of superior liquidity to goods and services. In other words, it can be put into use at almost any time or place and so enjoys a flexibility of deployment similar to that of a "wild card" in a card game. These two characteristics of money give its holders a privileged position over the suppliers of goods and services. This is especially true for those who hold or control large amounts of money.

The hoarders can disrupt the dynamic flow of money balances of [economic activity](#), of purchases and sales, and of savings and investment. This power to disrupt enables the holders of money to demand the payment of interest as a reward for refraining from speculative hoarding. This in turn allows money to circulate in the economy.

This intrinsic power of money is not dependent on its actual hoarding, but rather on its potential to disrupt economic activity. This enables money to extract a tribute in the form of interest in return for allowing the "metabolic exchange" of goods and services in the "social organism." The "return on capital" is accorded priority over broader economic considerations, and production becomes attuned more to the monetary

interest rate than to the real needs of humans. Long-term positive interest rates disturb the balance of profit and loss necessary for the decentralized operation of markets. Gesell held that this led to a dysfunction of the social system exhibiting very complex symptoms: the non-neutrality of interest-bearing money results in an inequitable distribution of income, no longer reflecting differences in productivity. This in turn leads to a concentration of monetary as well as non-monetary capital, and therefore to the predominance of monopolistic structures in everyday life.

Since it is the holders of money who ultimately decide whether it circulates or stands still, money can't flow "automatically" like blood in the human body. The circulation and the correct dosage of the monetary supply can't be brought under effective public control; deflationary and inflationary fluctuations of the general price level are inevitable. In the course of the business cycle when declining interest rates cause large amounts of money to be withheld from the market until the outlook for profitable investments improves, the result is economic stagnation and unemployment.

II

Toward a Neutral Servant of Economic Activity

IN ORDER TO DEPRIVE MONEY OF ITS POWER, Gesell did not advocate recourse to measures aimed at outlawing the taking of interest, such as the canonical prohibitions of medieval times. On the contrary, he envisaged structural changes in the monetary system centering about the imposition of carrying costs on the medium of exchange. This would counteract the inclination to hoard, and neutralize the liquidity advantage of conventional money. The imposition of such carrying costs on liquid monetary assets--comparable to a demurrage fee for freight containers in the field of transport economics--would deprive money of its power to dominate the market while allowing it to fulfill its designated function as a medium of exchange facilitating economic activity. Counteracting disruptions in the circulation of the medium of exchange due to speculative hoarding would allow the quantity and velocity of the monetary supply to be periodically adjusted to match the volume of production and the overall level of economic activity in such a way that the purchasing power of the monetary unit could be made to possess the same long-term stability as other weights and measures.

In his earliest works, Gesell referred in particular to "rusting bank notes" as a method for implementing an "organic reform" of the monetary system. Money, which had hitherto been "dead foreign matter" with respect to both the social system and the natural world, would thus be integrated into the eternal cycle of the life and death, becoming transitory and losing its characteristic of limitless self-multiplication by means of simple and compound interest. Such a reform of the monetary system would constitute a regulative holistic therapy; by removing the cause of disruptions in monetary circulation, Gesell envisaged that the self-healing powers of the dysfunctional social "organism" would gradually increase, allowing it to recover from the diverse economic and structural symptoms of crisis, ultimately reaching a state of equilibrium, in harmony with the rest of the natural order.

In his main work, *Die Naturliche Wirtschaftsordnung durch Freiland und Freigeld* (The Natural Economic Order through Free Land and Free Money), published in Berlin and Bern in 1916, Gesell explained how the supply and demand of capital would be balanced in the case of uninterrupted currency circulation so that a reduction of the real rate of interest below the presently existing barrier of around 3 to 4% would become possible. Gesell used the term "basic interest" (Urzins) to denote this pure monetary interest rate of around 3 to 4%, which is not found to vary very much historically. Interest represents the working person's tribute to the power of money, and gives rise to levels of unearned income far in excess of that suggested by its magnitude.

Gesell predicted that his proposed currency reform would gradually cause the "basic interest" component to disappear from the monetary loan rate leaving only a risk premium and an administrative charge to allow lending institutions to cover their costs. Fluctuations of the market rate of interest around a new equilibrium point close to zero would allow a more effectively decentralized channeling of savings into appropriate investments. Free Money (*Freigeld*), a medium of exchange liberated from the historical tribute of "basic interest," would be neutral in its impact on distribution, and could no longer disadvantage the producers and consumers. Gesell envisaged that access to the complete proceeds of labor brought about by the elimination of "basic interest" would enable large sections of the population to give up wage- and salary-oriented employment and to work in a more autonomous manner in private and cooperative business organizations.

III

Reinventing Land as a Resource Held in Trust and Not an Object of Speculation

TOWARDS THE END OF THE 19TH CENTURY, Gesell extended his vision of socioeconomic reform to include land reform. He derived inspiration in this respect from the work of the North American [land reformer Henry George](#) (1839-1897), author of *Progress and Poverty*, whose ideas about a "[single tax](#)" on the rental value of land became known in Germany through land reformers like Michael Flursheim (1844-1912) and Adolf Damaschke (1865-1935). Damaschke advocated taxing away the increase in values for the benefit of the community while retaining the principle of private ownership of land. Gesell's reform proposals paralleled those of Flursheim, who called for the transfer of land into public ownership, compensating the former owners, and thereafter leasing the land for private use to the highest bidder. Gesell argued that so long as land remains a tradable commodity and an object of speculative profit, the organic connection of human beings with the earth is severed. In contrast to the proponents of nationalist or racial oriented Blut and Boden ideologies, Gesell rejected the association of "blood" with "land." As a widely traveled citizen of the world he viewed the whole earth as an integral organ of every individual. All people should be free to travel over the surface of the earth without hindrance, and settle anywhere regardless of their place of birth, color, or religion.

IV

The Economic Equality of Women and Men

LIKE THE SINGLE TAX" REFORMERS of the Henry George School, Gesell held that the rental revenue from the land would enable the state to finance itself without the necessity of further taxes. In attempting to trace the rightful owners of these rental revenues in accordance with the principle of causality, Gesell concluded that the amount of rental revenue depends on the population density and this in turn depends on the willingness of women to bear and raise children. For this reason, Gesell proposed to distribute the revenues from the land rent in the form of monthly payments to compensate mothers for their work in rearing children. The maternal subsidy would vary in proportion to the number of their children under the age of majority. He advocated the extension of this scheme to include mothers of children born out of wedlock and foreign mothers living in Germany as well. His intention was that all mothers should be released from economic dependence upon working fathers and that the relationship between sexes ought to be based on a love freed from considerations of power and economic dependency. In an essay entitled *Der Aufstieg des Abendlandes* (The Ascent of the West), written to challenge the cultural pessimism of Oswald Spengler's [Der Untergang des Abendlandes](#) (The Decline of the West), Gesell expressed the hope that the human race, which had been physically, mentally, and spiritually degraded under capitalism, would gradually be able to regenerate itself under a reformed economic order and experience a new cultural renaissance.

V

Other Pioneers of a Market Economy without Capitalism

GESELL'S THEORY OF A FREE ECONOMY based on land and monetary reform may be understood as a reaction to both the laissez-faire principle of classical liberalism as well as the later Marxist visions of a centrally planned economy. It should not be thought of as a third way between capitalism or communism in the sense of subsequent "convergence theories" or so-called "mixed economy" models, that is, capitalist market economies with global state supervision. Rather, free economy was an alternative beyond hitherto realized economic systems. In political terms it may be characterized as "a market economy without capitalism." In this sense as he later came to realize and acknowledge, Gesell had independently discovered and extended the critique of capitalism formulated by Pierre Joseph Proudhon (1809-1865), the French social reformer and contemporary of Marx. In the mid-19th century, Proudhon had cited both the private appropriation of land and the power of interest-bearing money as responsible for disappointment that an egalitarian society had failed to evolve following the demise of feudal absolutism. Proudhon condemned privately appropriated ground rent as robbery and denounced interest on money as cancerous usury. These forms of unearned income linked to exploitation led to the emergence of the haute bourgeoisie as a new ruling class, which molded the state and church into instruments of domination over the petit bourgeoisie and the working class. Gesell's alternative economic model is related to the liberal socialism of the cultural philosopher Gustav Landauer (1870-1919), who was also influenced by Proudhon and who, for his part, strongly influenced Martin Buber (1878-1965). There are intellectual parallels to the liberal socialism of the physician and sociologist Franz Oppenheimer (1861-1943) and to the social philosophy of Rudolf Steiner (1861-1925), the founder of the anthroposophic movement.

VI

Free Economy Organizations in Germany and In Switzerland Prior to the [First World War](#)

GESELL'S FIRST co-WORKER, GEORG BLUMENTHAL (1879-1929), combined proposals for land and [monetary reform](#) with the concept of a droit naturel or natural social order, with which Francois Quesnay (1694-1774) and his fellow Physiocrats had opposed feudal absolutism at the time of the French Enlightenment. In 1909, Blumenthal founded the Physiokratische Vereinigung (Physiocratic Association). This was the first formal organization of supporters of Gesell's free economy theory which drew its members from the ranks of land reformers, individual anarchists, and syndicalists in Berlin and Hamburg. When the association's journal, Der Physiokrat (The Physiocrate), fell victim to censorship during the First World War, Gesell moved to Switzerland, where he found supporters among the local land reformers, educational reformers, and in other progressive circles. They organized themselves into the Schweizer Freiland-Freigeld-Bund (Swiss Free Land-Free Money-Federation). In two lectures entitled Gold oder Frieden? (Gold or Peace?) and Freiland die ehrne Forderung des Friedens (Free Land-- the Essential Condition of Peace), Gesell explained the significance of his reform proposals as a way to promote social justice and peace among the nations.

VII

Between the Two World Wars

AFTER THE END OF THE FIRST WORLD WAR and the subsequent November Revolution in Germany, Gesell's connections with Gustav Landauer led to his short-lived appointment as People's Commissioner for Finance in the first Bavarian Räterepublik. Following the overthrow of the Räterepublik, he was indicted for high treason but was subsequently acquitted of all charges. Afterwards,

Gesell took up residence near Berlin where he observed and commented on the development of the Weimar Republic in numerous tracts and pamphlets. He suggested that by means of a graduated wealth tax of up to 75 percent, an appropriate contribution to the economic consequences of the war should be extracted from the large-landed estates and big business interests. At the same time, he proposed to initiate the domestic accumulation of capital by means of his land and [monetary reform program](#) in order to enable Germany to fulfill the reparation demands of the victorious Allied powers. He criticized what he perceived to be the disastrous errors in the economic policies of the rapid succession of unstable governments. The errors included, (1) the effective expropriation of large sections of the lower and middle classes by massive inflation instead of introducing effective currency reform; (2) the protraction of reparation payments, making Germany dependent upon an influx of foreign capital; and (3) the abandonment of the stable Rentenmark in favor of the crisis-prone international gold standard.

Gesell distanced himself from racist ideologies. He aimed to develop an objective critique of the structural defects in the existing [economic order](#). This would be free from the subjective racial prejudice of anti-Semitic demagogues, whose diatribes against so-called "Jewish" usurers he criticized as a "colossal injustice." Gesell was greatly influenced by Darwin's theory of evolution and viewed his reform program as a means for encouraging a more healthy evolution of human society. However, Gesell should not be classified as a "social Darwinist" because he believed that extremes of wealth and poverty reflect structural defects in the economic order rather than real differences in aptitude and productivity. Opposed to ultra-nationalist triumphalism, Gesell advocated the promotion of mutual understanding between Germany and its neighbors. He called for the abandonment of expansionist politics and the formation of a voluntary confederation of European states to promote international cooperation.

Gesell also drew up proposals for an international post-capitalist monetary order, advocating an open world market without capitalist monopolies, customs frontiers, trade protectionism, and colonial conquest. In contrast to subsequently established institutions, such as the International Monetary Fund, the World Bank, and the European Union, which act on behalf of the powerful within the existing framework of unjust structures, Gesell called for the establishment of an International Valuta Association, which would issue and manage a neutral international monetary unit freely convertible into the national currency units of the member states, but operating in such a way that equitable international economic relations could be established on the basis of global free trade.

Although the precise degree of influence cannot be established, it is interesting to note that echoes of Gesell's ideas concerning the International Valuta Association can be found in J.M. Keynes' original Proposals for an International Clearing Union submitted on behalf of the British delegation but rejected by their American counterparts at the Bretton Woods conference in 1944.

The massive inflation of the early post-war years led to a rapid growth of popular support for Gesell's reform proposals. The membership of [Free Economy organizations](#) reached an estimated 15,000 persons by 1924. In 1924, a split occurred among Gesell's followers leading to the formation of the moderate liberal [Free Economy Federation](#) and the more radical individualist-anarchistic and militant-sounding Fysiokratische Kampfund (Physiocratic Task Force). The split was caused in part by a heated controversy that had been sparked by Gesell's treatise Der Abgebaute Staat, a wide-ranging polemic in favor of the "dismantled state." These internal power struggles weakened the Free Economy movement, which failed to develop into a mass movement. Still, continuous efforts were made to canvass support among the [Social Democratic Party](#) and the Trade Union movement, as well as among the various peace, youth, and female emancipation movements that flourished in the Weimar Republic. During the Great Depression the Freiwirtschaftsbund addressed memoranda to all parties represented in the parliament warning of the terrible consequences of the deflationary policy being adopted at the time, and submitting proposals for overcoming the crisis. These memoranda generated little or no response. As soon as the success of

practical experiments with Free Money organized by the Fysiokratische Kampfbund, which included the reopening of a mine at

Schwanenkirchen, began to command public attention, further experiments were outlawed by the German Finance Ministry under the terms of the Emergency Decrees of the Brüning government in 1931.

A Free Economy party contested the 1932 Reichstag elections without success. After the Nazi Party's seizure of power in 1933 many Free Economy supporters suppressed their misgivings about the true character of the Nazi ideology and succumbed to the illusory hope that Hitler might act on the earlier rhetoric of Gottfried Feder concerning "the smashing of interest-slavery." They tried to exert influence on leading functionaries of the Nazi Party hierarchy in the hope of bringing about a change of course on economic matters. Despite rather dubious tactical efforts to conform to the requirements of the new order, in the spring of 1934 the various Free Economy organizations and publications that had not already voluntarily disbanded were outlawed.

Initial misjudgments concerning the totalitarian regime had been encouraged not only by the painful memories of rejection by the [political parties](#) of the Weimar era, but also by uncertainty about the most appropriate way to realize land and monetary reform. [Free Economy](#) associations in Austria (until 1938) and Switzerland continued their work. English, French, and Spanish translations of Gesell's main work were published during the second World War. Introductory brochures were produced in a wide range of languages including Dutch, Portuguese, Czech, Romanian, and Serbo-Croat as well as Esperanto, reflecting the work of smaller groups in England, France, the Netherlands, Belgium, Czechoslovakia, Romania, and Yugoslavia. In North and South America, Australia, and New Zealand, Free Economy associations were established by German emigrants.

VIII

Post-War: New Beginnings, Neglect, and Renewals

- FREE ECONOMY ORGANIZATIONS were reestablished throughout post-war Germany. In the Soviet occupation zone they were outlawed in 1948; the Soviet authorities regarded Gesell either as "an apologist of the monopoly bourgeoisie" or, in the same way that Marx had dismissed Proudhon, as "a socialist of the petit bourgeoisie" whose aims were incompatible with "scientific socialism." In Western Germany, the majority of the Gesell's followers who survived the war voted to form their own political party to contest elections because of their negative experiences with the established political parties of the Weimar era. They founded the Radikalsoziale Freiheitspartei (Radical Social Liberal Party), which received just under one percent of the votes at the first election to the Lower House of the German Parliament in 1949. The party's name was later changed to the Freisoziale Union (Free Social Union), but its support remained at a negligible level in subsequent elections. A Silvio-Gesell-Haus was established as a meeting center between Wuppertal and Neviges, where seminars and conferences on Free Economy and related topics are still regularly held.

In spite of the fact that prominent economists like [Irving Fisher](#) and John Maynard Keynes had recognized the significance of Gesell's work in the inter-war period, the West German economic miracle of the 1950's and 1960's largely extinguished public interest in alternative economic models. It was only towards the end of the 1970's that mass unemployment, environmental destruction, and the growing international debt crisis led to a gradual revival interest in Gesell's ideas, ideas that had suffered almost complete oblivion. In this way, it became possible to pass on the insights of the Free Economy school to a new generation.

In Switzerland, a significant collection of Free Economy literature is to be found in the Free Economy Library of the National Economic Archive in Basel. In Germany the Stiftung für Reform der Geld- und Bodenordnung, a foundation promoting the reform of the monetary and land order, began to establish a German Free Economy Library in 1983. To provide a basis for academic research into Gesell's life and work it also commissioned an 18-volume edition of his collected works in 1988. In addition to this, a series of secondary literature entitled *Studien zur natürlichen Wirtschaftsordnung* (Studies on a Natural Economic Order) is under development; the first two volumes published were a centenary review of the history of the Free Economy movement and an edition of selected writings by Gesell's most important student, Karl Walker.

The German foundation also promotes other publications relating to land and monetary reform, and in collaboration with the Sozialwissenschaftliche Gesellschaft (Social Sciences Society) publishes a quarterly periodical, *Zeitschrift für Sozialökonomie*, commenting on social and economic issues. It has awarded a Karl Walker Prize for academic papers dealing with the problems arising from the increased decoupling of financial markets from the real economy (1988), and with proposals for overcoming unemployment (1995).

The Seminar für freiheitliche Ordnung (Seminar for a Liberal Order) is responsible for the issue of a series of publications entitled *Fragen der Freiheit* (Questions of Liberty). The Initiative für eine Natürliche Wirtschaftsordnung (Initiative for a Natural Economic Order) endeavors to promote popular awareness of Gesell's ideas in cooperation with associated organizations in Switzerland and Austria. An association called Christen für gerechte Wirtschaftsordnung (Christians for a Just Economic Order) promotes the study of land and monetary reform theories in the light of Jewish, Christian, and Islamic religious doctrines critical of land speculation and the taking of interest. Margrit Kennedy, Helmut Creutz, and other authors have examined the contemporary relevance of Gesell's economic model and tried to bring his ideas up to date. Of particular importance in this respect have been the various efforts to examine the correlation between the exponential growth of financial assets and debts and the environmental ly destructive "growth imperative" driving the real economy. There have been suggestions for overcoming the growth imperative and efforts to combine land and monetary reform ideas with proposals for an ecologically based tax system. The book entitled *Gerechtes Geld--Gerechte Welt* (Just Money--Just World) offers a survey of the present state of these theoretical developments. This book is a compilation of essays and discussion papers examining the centenary of Gesell's first monetary reform publications. The congress was held in 1991 in Konstanz under the title: 100 Jahre Gedanken zu einer natürlichen Wirtschaftsordnung--Auswege aus Wachstumszwang und Schuldenkatastrophe (100 Years of Thought Related to a Natural Economic Order--Solutions to the Growth Imperative and Debt Crisis).

The collapse of state socialism in Central and [Eastern Europe](#) has led to the temporary triumph of Western capitalism in the ideological struggle between competing economic models. However, as long as the disparity between rich and poor continues to increase, as long as exponential economic growth continues to cause accelerating environmental destruction, and as long as the "developed" nations of the Northern hemisphere continue to ruthlessly exploit their "undeveloped" southern neighbors, it is necessary to search for alternatives to the prevailing economic order. Under these circumstances, [Silvio Gesell](#)'s Free Economy model retains its relevance and may yet begin to receive the wider recognition that it deserves.