

CHAPTER VI

INTEREST MAKES NO DISCRIMINATION

INTEREST is another of the chief agencies employed by society in the division of the products of industry. Whole libraries have been written on the theories of interest and whole lives have been wasted in their discussion. Theories do not feed the hungry. It makes little difference to the mass of humanity whether the facts support the productivity theory, the exploitation theory, or no theory. But the fact that all interest is paid out of the products of labor, and the fact that it gives a large fraction of social income to non-producers, are matters of serious importance.

Interest must be distinguished from dividends and profits. Because dividends and profits are commonly reckoned as a certain rate per cent. on the face value of stocks, bonds, or other forms of investment, they are

commonly confounded with interest. Interest is a definite fixed amount paid to the owner of capital by another who uses it, as when a man borrows a thousand dollars on a mortgage and pays five per cent. for its use. Here is a definite amount agreed upon, which is not to be increased or decreased during the duration of the mortgage by success or failure of business, or by changing trade conditions, as dividends and profits may be. These may run much higher than interest, and so be more than a fair compensation, or they may run lower, even to zero, and so be below fair compensation.

The ethical right of interest-taking has been denied by some moralists ever since the wealth of one man was used by another. This right is now generally conceded, but wrongs are connected with the taking of interest. The wrongs, however, are not in the taking of interest *per se*. If a man through his own efforts legitimately earns \$3000 a year and of this amount saves \$1000, instead of using it all as he might easily do, he soon comes to be a capitalist. If some other man thinks he can employ this saved wealth to advantage and offers to pay the owner of it

for its use, we are unable to see any moral wrong, if the man who earned it allows the other man to use it and accepts compensation for its use. Suppose instead of lending it he builds a house with it and rents the house. He is doing legitimate business and no one says he has no right to receive compensation for the use of the house. But in reality he is doing the same thing in the two cases—he is securing compensation for the use of his savings. In the latter case his house is his capital, and he gets his interest in the form of what is commonly called rent. If during twenty or twenty-five years of honest effort and economy he saves such a sum as put at interest will provide an income without further labor on his part, he does no wrong to his fellows.

Suppose another man chooses to play a common rôle in the stock market instead of conducting some legitimate business. In his relation to certain stocks he at first plays the part of a "bear," and with other manipulators he does all in his power to depress the market value of these stocks for the purpose of buying them at a price below their normal value. When they have ac-

completed their purpose they at once become "bulls" in their attitude towards these same stocks. They now reveal their hypocrisy while in the "bear" business, give the lie to their former conduct, and boom the same stocks for the sake of "profit-taking." Suppose a man through such manipulations secures a profit of \$60,000 and invests it in real estate. He now owns real property, from which he secures an income of \$3000, and chooses as did the other man to live on \$2000 and lend the other \$1000 to some man engaged in productive industry, who gives him interest for its use. In this case there is a moral wrong involved. It is not, however, in receiving interest. The other man received interest also. The wrong involved is in receiving interest on capital he did not earn or produce, but secured through stock-gambling methods. The first man, we assumed, legitimately earned his income of \$3000, but the second one secures his through luck and deception, chance and hypocrisy, or perhaps through brilliant dishonesty. The wrong is in getting possession of property without earning it, or without producing the values represented in it. For

the sake of making the two cases somewhat parallel, and for the sake of making the stock market operator's case as plausible as possible, it has been assumed that he invests his gains in real estate from which he receives the same income as did the other man from his labor, or from honorable business operations. He now appears to receive his income from real values. The general public do not ask how he came into possession of these values. The wrong involved is the same as it would be if he had received his income in the form of dividends on fictitious securities bought in the stock market. Investing his gains in real estate does not make the wrong right. He comes into possession of values which somebody has produced and has a moral claim on. Certainly the stock market operator has no moral claim to it or to the income received in any form from it. It is impossible for two men to have the right to own the same thing at the same time, one the man who produced it, the other a man who did not produce it. No man has any moral right to values he has not produced or has not earned by service to somebody else. All the laws of kingdoms and empires can

not make it right. So in the case of our stock market operator, all the laws of all ruling potentates can not give him a moral right to the real estate he bought with the money he gained from his stock market chicanery. But any ruling power can give him what is called a legal right. That is, ruling power can sanction his possession of it, and can use military force to protect him in that possession; but no power of decrees or of armies can convert injustice into justice. Somebody produced the values represented in this real estate. If these values are to belong to the man who did produce them or to the man who did not produce them, other things equal, any court which has any acquaintance with justice will give them to the man who produced them. We do not say any court of law. Courts of justice and courts of law are different institutions.

Men talk about the "cost of production." Wherein is this cost? And who pays it? In the production of all wealth three factors are always present: the material provided by nature out of which all goods are made, the labor of man acting on this material, and

capital assisting labor.¹ So far as production of wealth is under the control of man, it is produced by the sacrifice of material, labor, and capital. This sacrifice constitutes the real or social cost of production. What does sacrifice of material really mean from society's point of view? What does sacrifice of capital mean? Who pays this cost in the form of sacrifice?

All cost implies payment in some other form of values, or in sacrifice on somebody's part. In the case of material provided by nature, society has never given to any being or power outside of itself any values in return for the world's natural resources, nor has any sacrifice on society's part ever been made in return for them. Hence in the use of natural resources, the mines, forests, lands, etc., there is no cost to society. If somebody gives me a thousand dollars, or I find it in the street, and I use a dollar of it occasionally, there is certainly no cost to me. I have sacrificed absolutely nothing. I am simply enjoying what some other party or

¹ The word "labor" is used here to mean, as defined on page 86, all mental effort as well as manual labor, directly or indirectly applied to the creation of utilities.

power has produced. So it is in the use of natural resources by society, absolutely no cost to society. There may be cost to an individual member of society who has invested his earnings in some form of natural resources, but why should society give to some of its individual members some of its own heritage from creation, and then pay these individuals for its use. Individual interest must be sacrificed to community interests.

What does the sacrifice of capital mean? All capital is the result of former labor operating on material. So when capital is sacrificed for present-day production it is a sacrifice of former labor and natural resources. Since these resources cost society nothing, the only real social cost in the use of capital is in the sacrifice on the part of labor. The final analysis of the social cost of all production leads to the conclusion, that the only real cost is in sacrifice on the part of labor, interpreted to mean all exertion of mind or muscle directed towards the creation of utilities. This is not saying that all values are determined by labor. Labor's part is to make the things in which

values inhere, and carry them to the places where they are to serve their purpose. Other influences enter the determination of values, even influences over which men have no deliberate control, influences incidental to the development of the race. Labor, however, is the only factor in the production of wealth, or in the determination of values, which deserves reward, since it is the only possible sacrifice. The character of these rewards in the very nature of the case must be the values inhering in the products of labor, since there is no other source of rewards. And since there is nobody else engaged in production to be rewarded, all such values ought then to belong to those who make the necessary sacrifice to produce them. To put the proposition negatively, none of these values ought to go to those who do not labor, who do not contribute in any way to their production.

It follows as a necessary conclusion that those whose only part in production is ownership of capital have no right to any part of the products of industry, unless their capital is the result of their own ex-

ertions or the exertions of those upon whom through family relationships they are dependent, and not the product of some other man's labor. At present it makes absolutely no difference whether a man inherited his capital or earned it as motorman on a street car, whether he secured it in legitimate business or in an Amalgamated Copper gamble—in short whether he produced it or stole it; the laws of the country say to every man who owns capital: "We will protect you in the possession of your capital and in the right to the possession of all interest that may be paid for its use. It makes no difference to us whether you earned it or not. That is a matter of slight importance. What we want to know is that you've got it. We are interested in the fellow that has something; even if some other fellow did produce it, that does not change our attitude towards you. You need our protection because you've got something. If the fellow who produced it was n't able to establish a title to it and keep it, that is none of our business. He simply does not need our protection, because he has n't anything to be protected. Even if he was compelled

by hunger, for the sake of bread to eat, to relinquish all claim to the wealth he produced, that is not a matter with which we are concerned, that is his lookout. You may be well assured that so long as you possess the capital, we, the laws, are your friends. And not only so: you may be assured of this also, that you have other friends standing behind us ready for action in your behalf whenever necessary. These other friends are the military forces of the nation. With such friends, be at ease, invest your capital however obtained; we will see to it that you are protected in the transaction."

The wrong connected with interest and capital is not in the fact that interest is paid by the borrower to the lender for its use, but in the fact that because it is paid a large portion of social income by this means goes to those who have no right to it. The moral elements of the nation mightily protest against all forms of gambling on the ground that it is wrong to get something for nothing. They claim that this is a species of robbery, and so it is. It is on exactly the same ground that we protest

against the present system of paying interest to the possessors of capital to which they have no moral claim. Why should the moral sentiment of the community be so shocked because in a gambling shop men get something for nothing on a small scale, but maintain an absolute poise of soul when in the everyday business practices men are getting something for nothing on a gigantic scale? Is this difference of attitude produced by ignorance of the facts? Or has this moral sentiment become so stunned and calloused in the presence of this greater wrong that it has lost its power to perceive the enormity of it? Or is this same moral sentiment interested in securing something for nothing for itself through the ordinary business practices?

It is impossible to say what portion of the capital employed in the country belongs to those who have contributed to its production. When we remember that one per cent. of the families of the country possess a greater amount of wealth than the other ninety-nine per cent., that this same one per cent. of our richest families receive a larger portion of the products of

industry than the poorest fifty per cent., that they receive from property alone as large an income as half of the nation's inhabitants receive from property and labor together; when we recall the prevailing code of "business ethics," the laws of inheritance, the passing of millions of wealth from hand to hand among those who have never contributed the least use of muscle or gray matter to social welfare—when we think of all these things we are compelled to conclude that a very large portion of social capital is owned by those who can set up no moral claim whatsoever to it, and that all interest which is paid on such capital is so much taken out of the total social income, taken away from the producers, and paid over to non-producers.

If all capital were owned by those who have produced it, so that all that portion of social income which goes in the form of interest should be paid to those who have contributed to the production of social income, there would be no ground for complaint against interest as a distributing agency. Under existing conditions it is not at all surprising that there is a growing

92 Interest Makes No Discrimination

demand, a rapidly growing demand, that all capital shall be socialized, owned and controlled by the community instead of by individuals. The increase of this demand is shown very plainly in this country by the increase in the socialist vote, and still greater increase of socialist sentiment. This increase of the strength of socialism is not at all surprising to one who shakes off all bondage to tradition, who distinguishes between legality and justice, who sees the cruel injustices inflicted by social institutions and civil laws upon a portion of the commonwealth for the sake of the ease and luxury of the rest of them. This increase of the number of socialists, and of their demand for public administration of all capital, is to be expected by the man who sees things as they are. The increase of socialism in the United States seems to be in a geometrical ratio. If this is true, and this socialistic demand for public administration of capital continues to increase during the next decade as it has in the last decade, the nation will do well to begin to pave the road for a change.