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**THE NATURE AND NECESSITY
OF INTEREST**



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THE NATURE AND
NECESSITY OF INTEREST

BY

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PREFACE

THERE are some scientific problems such, *e.g.*, as the "Squaring of the Circle" in mathematics, which seem to have engaged the attention of humanity since the very earliest stages of civilisation, but of which the definite solution has been reserved for the efforts of the present age.

The problem of Interest belongs to this class. Indeed we find it dealt with as early as modern historical research is able to go back ; and it reflects at every step of its development the attainments and the aims of contemporary life. Economic investigations of the last two or three centuries have thrown light upon almost every side of the problem ; and, to construct a theory, there hardly remains more than to present, as a consistent and systematic whole, what is already known as a multitude of scattered observations. It is incumbent upon the present generation to bring about this final solution of a problem which has claimed so large a part of the efforts of previous ages.

We devote considerable energy to the discovery of the North Pole or to the exploration of the deserts of Asia. We do not do this for any immediate practical benefit, but simply because we

cannot rid ourselves of the feeling that we are bound to know the globe on which it is our lot to dwell. Is it not, then, even more urgent that we should comprehend the nature of Interest, and enable ourselves to trace the causes and effects of a phenomenon so intimately connected with our everyday life?

The problem of interest presents, however, not only and not even primarily, this historical or philosophical aspect. It is most emphatically a practical problem. In its earlier stages the discussion of interest turns essentially on what we now call usury. Though this side of the problem has lost its previous pre-eminence, it still remains an important subject for practical politics, and we cannot hope to deal with it profitably without thoroughly knowing the nature of the evil and the end we wish to attain. In our days the problem of interest has, to a great extent, changed its nature and has become principally a problem of social distribution. Looked at from this point of view, interest can of course be studied only as an integral part of the problem of Distribution, which is again, as we shall see, only a side of a problem to which we shall have to pay special attention, the general problem of Prices.

It also follows from this modern view of the problem of interest, that we can never hope to get a really good grasp of what is called the Social Question, without having thoroughly penetrated into the nature of interest. The Socialist School of the 19th century has largely identified the Labour

Cause with the abolition of interest; and the whole modern discussion of the Social Question has, mainly in consequence of this error, become so interwoven with allusions to the effects of interest and the right or wrong of it, that we cannot, at the present moment, enter on any investigation of the wages question without stumbling at almost every step on the problem of interest. This shows, perhaps better than anything else, the eminently practical value of a right theory of interest.

To write such a theory has seemed to me of such paramount importance that I have felt justified in devoting to the task the greater part of the last six years. The final issue of these efforts is given in the present volume. Some preliminary results have been published already; and for the more intricate questions of the theory, the reader is referred to these publications. The work that has to be gone through, in order to get to the bottom of the interest question, is not always of the very lightest kind; but I have endeavoured to make the present exposition of the matter as simple as possible, and I have not included in the text anything that might prove an obstacle to the ordinary reader.

I have devoted the first chapter to a survey of the historical development of the theory of interest. In this I have not tried to give anything like a complete history of the problem, my main purpose being to state the results hitherto obtained, and in this way to make the present investigation profit by the efforts of three centuries.

The positive theory of interest is preceded by a

chapter on the general theory of prices, with a view particularly to show what is the purpose and the use of prices, and thus establish their social necessity. For some of the more difficult points of this theory, the reader is referred to three papers that I have published in the "Zeitschrift für die gesamte Staatswissenschaft" during the last three years.

This foundation being laid, interest can be treated as a price determined by the demand for, and the supply of, a certain service. The causes governing the demand and the supply of that service, are examined in the two following chapters, and these contain, in fact, the central part of the theory of interest. The relations of interest to money are shortly discussed in the fifth chapter. It is particularly necessary to touch upon this side of the problem, because the general theory of prices has been built upon the assumption that a money scale can be taken for granted.

The necessity of interest having been established, so far as the present form of social organisation is concerned, by the investigations of the third and fourth chapters, I proceed in the sixth chapter to prove that interest would have to be paid even in a Socialist Community. Hence it follows that interest is an absolute element of economic life. This chapter is a short summary of my book "Das Recht auf den vollen Arbeitsertrag" (Göttingen, 1900).

In the final chapter, I endeavour to show that an accurate theory of interest is not merely the concern of a handful of scientific economists, but a matter of great practical importance. For it gives us a clear

and adequate conception of the old problem of usury as well as of the more modern and more general problem of social distribution, and therefore it takes us far on the road towards the solution of these weighty problems.

I have to express my grateful acknowledgments to the many friends who have corrected the English text or otherwise assisted me in preparing this volume for the press. Professor Smart has read the MS. as well as all the proofs, and I feel very much indebted to him for many useful suggestions and criticisms.

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G. C.

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CONTENTS

CHAPTER I

OUTLINES OF THE HISTORICAL DEVELOPMENT OF THE THEORY OF INTEREST

	PAGE
§ 1. The Canonist view of interest	1
§ 2. Interest a market price determined by supply and demand	6
§ 3. Interest paid for the use of Capital not for the use of Money	17
§ 4. Subdivision of Profits into Interest and "Profits of Enterprise"	24
§ 5. Interruption of the Development of the Theory of Interest	29
§ 6. For what is Interest Paid? I. The Supply Side	37
§ 7. II. The Demand Side; (a) Use of Capital; its identity with Waiting	45
§ 8. The Demand Side; (b) Productivity of the Use of Capital	49
§ 9. Bohm-Bawerk and the Theory of Interest.	55

CHAPTER II

ON PRICES IN GENERAL AND ON INTEREST CONSIDERED AS A PRICE

§ 1. Value and Price	68
§ 2. On the ideal system of prices	72
§ 3. General causes governing prices	79
§ 4. On Interest considered as a price	85

CHAPTER III

DEMAND FOR WAITING

§ 1. Waiting for consumption of durable goods. Principle of Scarcity	96
§ 2. Waiting for consumption of durable goods. Principle of Substitution	110
§ 3. Waiting for Production	123
§ 4. Waiting in Anticipation of Future Incomes	128

CONTENTS

CHAPTER IV

SUPPLY OF WAITING

	PAGE
§ 1. On Waiting	132
§ 2. Causes governing the Supply of Waiting	138
§ 3. Conclusions	152

CHAPTER V

ON THE RELATIONS BETWEEN INTEREST AND MONEY

§ 1. Methods of Securing Stability for the Money Standard	158
§ 2. Appreciation and Interest	163
§ 3. The true problem of interest	166

CHAPTER VI

INTEREST IN THE SOCIALIST COMMUNITY

§ 1. Economic Principles of the Socialist Community	171
§ 2. The Necessity of Interest	173

CHAPTER VII

SOME PRACTICAL CONCLUSIONS

§ 1. Interest and Usury	180
§ 2. Interest and Social Distribution	182

INDEX TO AUTHORS	189
----------------------------	-----

INDEX TO AUTHORS

- ARISTOTLE, 6, 33
d'Aulnis de Bouroull, 154
Ashley, 2-5
- BOARD OF TRADE, 90
Bacon, 9
Bastiat, 39, 40, 42, 61
Bentham, 1, 3, 62
Blissard, 178
Bohm-Bawerk, 22, 30, 56-67, 170,
175
- CAIRNES, 40, 41
Cassel, 34, 49
Child, 10, 14, 16, 43
Culpeper, 10, 13, 16
Culpeper (the younger), 13
Cunningham, 4
- ENDEMANN, 4
- FISCHER, 115, 118
Fisher, 163
Foxwell, 153
- GIFFEN, 132
Godwin, 152
- HERMANN, 45, 59
Hume, 19, 20, 28
Huckert, 127
- JEVONS, 36, 48, 49, 52-54, 57, 64, 92
- LASSALLE, 39
Lauderdale, 50
Law, 28
Lecky, 3
Leroy-Beaulieu, 154
Locke, 15, 18, 28
- MACCULLOCH, 32
Macvane, 41, 42
Malthus, 30, 31, 57, 64
Manley, 10, 11, 14-16
Marshall, 3, 22, 33, 42, 66, 153
Marx, 32-34
Menger, 43, 44, 47, 48, 58-61
Mill, 43, 44, 57, 138, 139
Mirabeau, 18, 19
Montesquieu, 18, 28
Mun, 10, 13
- NORTH, 11, 12, 15
- OWEN, 34, 171
- PETTY, 12, 14-16, 43
Proudhon, 33
- RAE, 43, 102, 139, 152
Read, 57
Ricardo, 27, 29-33, 36, 51, 57, 92
Riedel, 59
Rodbertus, 34, 171, 175
Roscher, 57, 58, 59, 154
Ruskin, 183
- SAY, J. B., 25-29, 31, 45, 52, 56,
57, 59, 60
Senior, 38-40
Sidgwick, 175
Smith, 23, 24, 28, 36, 57, 134
Steuart, 16, 20
- THOMPSON, 32, 34
v Thunen, 51, 52
Tooke, 25
Turgot, 20-22, 24, 28, 45, 47, 48,
51, 56, 60
- VAUGHAN, 15
- WEBB, S. and B., 7, 77

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