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Free-economics

The vision of reformer Silvio Gesell

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Abstract *During the first decades of the 20th century, German Reformer Silvio Gesell (1862-1930) championed with a certain success the reforming wave of the epoch by complementing ingenious solutions to some of the most important economic issues of his time with theoretical insights that were as radical as they were penetrating. The purpose of this paper is to offer an introduction to such intuitions, whose validity had been recognized even by a few distinguished academics of the 1930s, but which, owing to the extreme complications that eventually mired German intellectual production in its quasi-entirety before WWII, failed to preserve the deserved consideration, however slight, they had earned when first formulated. A reappraisal of Gesell's contributions, considering the importance of his main themes, may be worthwhile, all the more so as these deal with questions unsolved to this day.*

Introduction

Academic figures such as those of Irving Fisher in the United States and John Maynard Keynes in the United Kingdom were conquered by the fiery élan of Silvio Gesell's (1862-1930) writings. Keynes, diffident as professional economists are of articles of "uncertified" provenance, recalls how he had been literally "bombarded" with the publications of *the Freiland-Freigeld-Bund* – the "Free-Land Free-Money Association" for reform headed by Gesell – and finally convinced of their indisputable worth (Keynes, 1973, p. 353). The interwar period, which saw the heyday of Gesellian economics, was set as the stage of what was believed to be the ultimate proof that conventional capitalism, as the modern industrial states of the west came to know it, was doomed to irremediable failure. Silvio Gesell published his acknowledged masterwork in its latest revised edition, *Die Natürliche Wirtschaftsordnung durch Freiland und Freigeld*, more generally known in English as "The Natural Economic Order" (hereinafter *NEO*), in 1920. Germany at that time had just emerged out of the Great War defeated, and the public arena was rife with both acrimonious and inconclusive debates, on the sanctions imposed by the Treaty of Versailles (signed by the vanquished powers in June 1919). In the *NEO* Gesell foresaw some of the catastrophic occurrences that were soon bound to plague his country and thereby the precarious equilibria of the world economy.

His was an uncompromising critique of rentier-capitalism, which comprised the structure of all modern industrialized democracies. What made life difficult for the Gesellians in the political landscape of post-war Germany was their non-partisan stance, which could not fit, not even uncomfortably, in the ongoing, and apparently immutable, strife pitting "the forces of reaction" against those of "revolutionary socialism". Drawing from Proudhon and the pacifist anarchical tradition, which

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encouraged private possession of the means of productions, and free initiative, yet posed as the staunchest form of opposition to rentier-capitalism and institutionalized usury, Gesell and his associates were hard-pressed to take sides in the current ideological clash, vehemently opposed as they were to both factions ("revolution" and "reaction") of what seemed a suspiciously "orchestrated" state of perennial warfare, triggered by specious motives. Thus, they proudly clung to the tenets of their associative dealings, tenuous though these were, silenced, but mostly slighted, on one flank by the establishment, and openly suppressed and marginalized by their implacable Marxist foes on the far left. Intellectual consistency and great political weakness, the latter inevitably dictated by the durable triumphs of Big Business on the one hand and socialist workers' critique by the Marxist Left on the other, condemned the Gesellian brand of anarchism, after a flurry of publishing success (during the first two decades of the XXth century), to well-nigh complete oblivion in the confused panorama of the Weimar era. Gesell an unheeded prophet and economic guru died in 1930, on the eve of the great German slump.

Gesell's most important contribution to the field of economics is his theory of interest. This theory derives its defining traits from a characterization of the properties of money as the medium of exchange. On the basis of his radical formulation and alleged solution of the problem, he then ascribes virtually all manifestations of social evil – such as crises, recessions, exploitation, war, slavery, and even possibly as an uncouth tribute to his *Zeitgeist*, racial degeneration – to a fundamental misapprehension of the true nature of money, i.e. that of having made money something which it is not, namely merchandise.

If the economy is to proceed along wholesome directions, the medium of exchange in its simple tangible form ought to reflect the life cycle of the goods it is supposed to mirror while circulating. Like commodities, it ought to decay. Normative prescriptions follow. Failure to acknowledge this simple truth lies at the foundation of all social mismanagement. Thus the whole political economy of the West, and its pecuniary vicissitudes – the root of all economic dynamics – are read and interpreted as an account of stubborn errors and unwarranted seizures of the fruits of other people's labor committed in the name of an illusory, but nonetheless most potent and binding belief, that of the imperishability of the medium of exchange.

The monetary reform (*Freigeld*) of Gesell was to be buttressed by a thorough reorganization of land tenure and real estate legislation (*Freiland*); the combination of both blueprints for change was intended to provide a solution of the most pressing social maladies of mankind. Though less exhaustive than his treatise on money, the land part of the *NEO*, dismissed offhand by Keynes in the course of his idiosyncratic exploration of Gesell's main work as undeserving of notice on account of its lack of originality, is however an integral component of the Gesellian vision, for it features a discussion of the distortions generated by the main source (other than money) of unearned income, i.e. rent, and the practical methods that must be adopted to phase out such ingrained contractual forms of usurpation. Hence, the reformer's proposals drafted with a view to achieving a just apportionment of land, in the economic sense of the word, merit treatment in a review of Gesellian economics, also by virtue of the fact that, by completing his discourse with an ample section devoted to land questions, Gesell comes full circle in what figures as a reassessment of the legacy of Proudhon – the spiritual father of humanist anarchists –, who subsumed under the same caption of "seigniorial right" (*droit d'aubaine*) both rent and interest, the two originating, the Frenchman believed, from the same larcenous seed. Gesell would greatly refine the intuitions behind his master's arguments, as will be shown herein.

Following are a reference to the precursory investigations of Proudhon, an exposition of Gesell's monetary dynamics, his theory of interest, and a succinct discussion of the issue of land reform.

Theft, bites and a people's bank: the economic heredity of Pierre Joseph Proudhon

> Laws! We know what they are and just what they are worth: for the rich and mighty, gossamer; chains which no steel can cut from the poor and the weak; and for governments, fishing-nets (P.J. Proudhon, *L'idée générale de la révolution au XIX siècle,* 1851).

Looked at closely, quaint, if not wholly disagreeable occurrences are observable in the economic realm. For one, the owner of a house (*A*), of money, or machinery, and other forms of equipment, should he not be fortunate enough to find another party (*B*) eager to lease one or more of those articles of craft and comfort for his (*B*'s) personal use and business, will have to subtract from his (*A*'s) yearly proceedings a certain "amount".

If *A* fails to rent some of his overabundant supply of useful stock, he shall have to go without the income he could have earned from the employment of that supply; should he decide to occupy a building of which he is the truthful owner, and thus not rent it, he is expected, in keeping with sound capitalist accounting, to defray "rent" from his aggregate annual gains (Proudhon, 1970, p. 422). A prudent owner behaves similarly with cash lying fallow in his purview, and any other good susceptible, in the hands of others, of ingenious application. If not, it is a missed opportunity. *A* becomes beholden to himself for the amount the law permits him otherwise to charge to any third party. It is a form of cannibalism goods that seem to consummate upon themselves. And for Proudhon, admittedly it is quaint.

Perusing further the ways of traditional trucking, men, styled bankers, are to be found, who, by dint of their indestructible metals, are suffered to lend the metals at a price, reckoned as interest. In money lending, bankers do not as a rule relinquish the title of ownership of their metals; they are not released but are loaned at a price. Nor does the so-called land-proprietor cede the land when offering it to the tenant-cultivator. He asks a price for its mere usage – a price above wear and tear, and maintenance (which are normally recuperated by the owner from the user, aside from rent proper) (Proudhon, 1970, p. 429). A sort of toll, that is.

Quainter than all this is the acknowledgment that another category of economically busy individuals – mostly simple laborers – find no tutelage in the law to the effect that their effort has no corresponsive right to that shielding the owners of, say, money, land and other products subsumed under the caption of capital. Workers perform, obtain wages thereby, but can claim no extra toll-like recompense. The workman repairing the implements of the farmer is paid only once, and when he receives the price, he surrenders exertion and expends the matter making up his tools. Landlords do not part with what is theirs; it is paid for perennially, and eternally kept (Proudhon, 1970, p. 429).

It is said that money and land, "the heavy, solid unrealities" of life (Hawthorne, 1985, p. 176), are capital as well. But there even appears to be a chain of causation in this intricacy of rights and distribution. Indeed, the investigator may presume the origin of it all lay with the banker, who, by charging interest determines how all other capital-owners are to behave – i.e. what percentage they are entitled to expect from their transactions (Cohen, 1927, p. viii). A percentage, good business practice seems to intimate, high enough to cover the percentage of money interest. And as house-rent is mostly dependent on building capital, one may safely infer that much decision-making rests with the humor of bank business.

Clearly, in the vision of Proudhon, a nest of unwarranted exaction causes interstitial trammeling in the customary fluency of transactions. True, the exaction would not be unwarranted should "capital" – garnered wealth in the form of goods, utensils, raw materials, and intangible yet legally appraised advantages of trade (goodwill, trademarks, etc.) – proves to have some productive force, evident to all, which, in conjunction with the mutable contingencies of ever-widening commerce, is a credited agent of material increment.

But this, Proudhon vehemently denies. Capital is not productive, as labor or nature is defined to be – it is so only by way of metaphorical license; indeed, capital distinguishes itself from other products, he argues, in nothing but its being in the eyes of traders a "settled value, whether in land, machinery, merchandise, provision, or money, serving or capable of serving in production" (Proudhon, 1927, p. 142). For Proudhon, freely disposable capital is money, whereas engaged capital is any conceivable arrangement of products and resources destined for business endeavors. All capital, according to Proudhon, has the nature of a product: free capital is readily available and consumable – that is why it may be read as a synonym for "money", with which one immediately identifies ordinary consumptives in common parlance – engaged capital, instead, is merchandise – that is, goods awaiting transformation into something else. What has been here apprehended, somewhat vaguely, is not an inherent productive faculty of capital as such, but the more fundamental differentiation between products ready to be consumed (mirrored by, one could say, purchase money), and products still in gestation (reflected by loan, or saved, money). Had Proudhon carefully pursued this distinction when he came to analyze the behavior of money in relation to these two modes of capital, he would have averted those fallacies that bore some responsibility in making Proudhon's Exchange Bank (later, People's Bank) an aborted attempt of social reform.

Anarchist Charles Dana echoed the Proudhonian invective in his proclamations to the American public:

> Your capital has in itself produced nothing; it has simply enabled the laborer a greater aid from these powers of nature which are free to all men and are ever ready to help industry; it is thus that the product has been increased, and not because your wheat, or wool, or iron, or steel, or the labor heretofore incorporated with them have created anything. Nature and active force produce; the remains of past labor, called capital, are only capable of being consumed. If the laborer has used anything of yours, let him give you an equivalent therefor; justice demands nothing more (Dana, 1984, p. 32).

Thus, the root of exchange itself is entwined with a host of exacting demands that pretend the remittance of something without purveying anything in exchange. This is the *droit d'aubaine* – a seigniorial right, which in olden times, before the law institutionalized it and made it a cornerstone of societal interaction, was imposed and wielded with brute force. Such a claim arises in connection with privileged stations of economic life: limited cultivable and fertile areas, for rent; indestructible metals desired by all with a view to bartering and saving, for interest. The rest of the economy hinges upon the strictures of these two "rights". They form the legal, enforceable, foundation of property. The Romans, to Proudhon the greatest usurers that ever trod the earth, had already attained the highest levels of sophistication in codifying the bounties and advantages pertaining to the proper exercise of ownership (Proudhon, 1970, pp. 421-2). Modern capitalism adopts a slightly improved version of the most articulated jurisprudence of the Latins. What is property?

Qu'est-ce-que la propriété? *Droit d'aubaine*. Something for nothing. Theft, in brief. At present, legally sanctioned theft.

> In any society based on property, the law is necessarily the institutionalization of injustice ... By a formal, legal, and authentic contract, sanctioned by all jurisprudence, all legislations and all religions, the borrower binds himself to the lender to pay him, *to the end of time*, interest on his capital, land, furniture, or money; he gives himself body and soul, himself and his heirs, to the capitalist and becomes his tributary *ad vitam aeternam*. That is what is termed the *settlement of an annuity*, and, in certain cases, *emphyteusis*. In our day capital and real estate are no longer placed at permanent rental, except with the state: they are LEASED, – that is, lent –, always at interest (Proudhon quoted in Hyams, 1979, p. 188).

Not only is for Proudhon the economy founded upon theft, but also, what is more, the tribute-exacting appetency of legalized "property", like a serpent, constringes its spires around the neck of proprietor and lessee alike, as hinted in the prefatory statement of this section[1]. The logic of unjust appropriation is spread to the whole community by means of abstract, but binding rules of conduct, which, eventually, engulf the well being of all into a mire of acrimonious recriminations that culminate in the paralysis of inactivity and recession. The Hebrews thought of interest as a "bite" (*neschek*); the Romans entertained similar notions: Papinianus, one of Rome's preeminent *leguleii*, sentenced *foenus mordet solidum* (interest bites into the capital). The upshot of such pilfering and nibbling is: insufficient wages being paid out to workmen to repurchase the merchandise they contributed to create; ever swelling debt, ever rising imposts, indenture for life, disproportionate growth of interest charges, mass insolvency, and thereby curtailment of investment and production; mounting pauperism, expedient conscription, war, famine. The learned antiphon to this recurrent state of distress has always been a wailing indictment of Nature's avarice in the face of the callow and intemperate breeding of humans.

Such credence has shown to possess to a high degree of those ingredients capable of dissipating any, even remotely, remorseful questioning of poverty's foundations. Dispensed as an equanimous appreciation of the environment's potential, this piece of rough-and-ready philosophy would tend to dissolve all arguments into resignation. The thesis that there is not enough food to feed a growing population is as old as indigence, or mankind for that matter. It has sprung, timely, in all quarters of the world afflicted by the restlessness and chaos that are wont to accompany destitution.

The version of such fatalistic lore that western modernity propounded went under the appellation of Malthusianism. Proudhon rejected it as fervently as he had refuted the alleged "productivity of capital". The example set by the father of all anarchists had persuaded his ardent offspring that before accusing Nature of being tight-fisted, they ought to inquire about the conditions upon which the tenure of the land rests, i.e. the apportionment of cultivable areas, the means adopted for its tending, the allotments for pastures, and the far-reaching distortions caused by effectual bonds of serfage.

For a brand of socialism that objected to the cooperative ownership of capital – because capital *per se* was not perceived as the cause of exploitation, and its collective management would have entailed a loss of liberty (Cohen, 1927, p. vi) – a socialism that believed in the private possession of the means of production and in the goodness of individual initiative, but feared the intrusions of the state in economic life, neither the stern acquiescence to the hardships of the Malthusian capitalism-with-constraints, nor the Marxist proposal of socialization were perceived as viable solutions to the social problem.

Instead, a People's Bank would have done so. It is clearly recognized that gold commands a premium above all other products, whose monetary counterpart, in the arena of trade, is the bill of exchange – i.e. the merchant's paper, which incorporates the promise to deliver goods in kind. The subordination of the bill to specie, or bank notes (distributed with the tacit understanding of their being warehouse receipts of the gold in storage), is palpable in the discount operation, which is an advance of money against a commercial paper-pledge, and which is transacted by paying for the metal a sort of duty, or "discount" (to be subtracted from the amount inscribed on the bill) – one of the many names of interest. To Proudhon, the royalty of specie was the most flagrant embodiment of privilege. He called for its immediate abolition, not by demoting noble metals to the insignificance of jewelry's raw matter, but by ennobling all human artifacts, "by making every product of labor ready money".

> If all the products of labor had the same exchange value as money, all the workers would enjoy the same advantages as the holders of money: everyone would have, in his ability to produce, an inexhaustible source of wealth (Proudhon, 1927, p. 50).

By thus "republicanizing specie", Proudhon thought that he could create an association of free producers, each endowed with an "inexhaustible source of wealth" consisting of his own industry and dexterity, whose transactions would be centrally managed by a "republicanized Bank of France", – Proudhon's imagined "Bank of Exchange". The Bank's monetary standard would neither be gold, nor paper, but the tangible sign of the manufacturer's product: again, the bill of exchange.

> Centralize all the operations of commerce by means of a bank in which all the bills of exchange, drafts and sight-bills representing the bills and the invoices of the merchants, will be received. Then . . . convert these obligations into paper of equivalent value, which, in consequence, will itself be a pledge of the products or real values that these obligations represent . . . The circulation can never be inflated, inasmuch as it is issued proportionately to the *delivery* of products and in exchange for warehouse receipts and other obligations resulting from such deliveries (Proudhon, 1927, pp. 67 and 70).

The bank was to function as a giant repository of every producer's goods – the warehouse of the community –, and as the great credit institute appointed to the settlement of purchases and provisioning throughout the network of France's industry by means of a thorough clearing system.

> Every man in the community belongs to the bank, and is bound to receive the notes in exchange for whatever he has to dispose of. They are, in fact, payable at the farm or the workshop of every one of the members, not in gold and silver, but in consumable products;

> and indeed they are not bank-notes, but bills of exchange, drawn, so to say, on every member of the bank, and bearing the signatures of every other. They are the true representatives, since they stand directly for articles of use (Dana, 1984, p. 44).

Thus, goods have been transformed into money. They wait at their respective points of origins, or at the bank – if shipped there as consignments – to be traded, while the bills issued against them circulate, and are being cleared through the accounting ledgers of the bank. In its mediating role, the bank stands as the representative of the body of producers, who combine to lend to their fellow producers at cost. According to the Proudhonian *principle of mutual or gratuitous credit*, products are extended to the contracting party "in consideration of the future return of [others] yet to be produced, or which is already produced, but not on the spot or in a condition which will allow it to be delivered" (Dana, 1984, p. 35), the cost of the advance being no more than an allowance sufficient to cover the depreciation and maintenance of the loaned papers. In the case of real estate, this arrangement would prevent rents from rising above the mere cost of keeping the premise rented in repair. The owner would thus not hire his land, or any assemblage of productive appliances, "at any more than it cost to preserve the same in good condition. Thus", concludes Charles Dana in his fiery exposition of Proudhon's blueprint for banking reform, "rent and interest being done away, where remains any productivity of capital?" (Dana, 1984, p. 41).

> The suppression of money interest would enable the worker to borrow capital gratuitously, and would give him immediate control over all useful capital instead of renting it . . . The right of property would be reduced to mere possession. Exchange would be reciprocal, and the worker would secure all the produce of his own labour without having to share it with others (Gide and Rist, 1913, p. 309).

The "immediate economic aim" of Proudhon's proposals for monetary and banking reform, like that of "every socialistic reform", Gesell states in the Introduction to his *NEO*, is to abolish "unearned income", notably interest and economic rent, or "so-called surplus value". What differentiates Proudhon from other socialists concerns the method to accomplish this aim. Most socialists, Gesell claims, propound "nationalization or socialization of production" for this purpose. Unique among socialists, Proudhon fathered "another [simpler and less intrusive] solution" (Gesell, 1920a, p. 3).

It is commonly supposed that its is private, capitalist ownership of the means of production that give, in Adam Smith's classic language, the (substantial) "advantage" in bargaining power to "masters" over "workmen". Lacking ownership of land and capital, "most workmen stand in need of a master, under whose authoritative control employment is directed, production is overseen, and market terms are skewed to the employer's advantage" (Smith, 1976, pp. 73-6).

As an associationist and anarchist, Proudhon fathered "another solution". He conceived that the "preponderance" of wealth and power currently "manifestly" concentrated "on the side of property can be shifted to the side of the dispossessed (the workers) simply by the construction of a new house beside every existing house, of a new factory beside every factory already established" (Gesell, 1920a, p. 3). In Proudhon's own words:

> For the surest method of depreciating real capital (a house, a field), or, in other words, of diminishing surplus-value in favor of wages, is, obviously, to create and operate additional real capital. By every economic law, increased production of capital increases also the total of

> capital supplied to the workers, thus raising wages and finally reducing interest (surplus-value) to zero (Proudhon cited in Gesell, 1920a, p. 3).

The means to achieve such a dramatic increase in aggregate investment and thus "real capital", Proudhon opines, is to engineer a massive expansion in the money supply and thereby a corresponding reduction in interest rates. This he argues, requires creation of a new kind of central bank committed to what Keynes would later call the "euthanasia of the rentier" and "enthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" (Keynes, 1973, p. 376) and, by extension, of the private landlord to exploit the scarcity-value of land. In other terms, it would entail transformation from rentier capitalism to a mode of economic society that would incorporate as one of its salient identifying qualities a form of private ownership (including ownership by associations and worker cooperatives) that seeks to diffuse the benefits to society from such productive elements as managerial and entrepreneurial as well as ordinary labor, but that dispenses with the power of certain private owners (capitalists and landlords) to extract interest and rent.

How is society to establish such a bank?

As a provisional measure, dictated by expediency, Proudhon envisaged a transitional stewardship of the State, which would have taken over the administration of the Bank of France, brokered sufficient capital for the endeavor, repaid its stock-holders, and kept the interest rate at a level sufficiently high (2-3 percent) in order to sustain the conversion, the objective being to lower it to 1/4 percent for its conventional discount operations once the path had been cleared from any governmental interference. Then, the bank would have been government-free (hence the self-proclaimed anarchism of Proudhon) – free to operate with no form of capital, but the social credit (the industry of the nation condensed in the form of circulating bills) of the people backing the enterprise.

In its richest formulation – when Proudhon was joined in his effort by a group of collaborators – the bank, to be named the Bank of the People, was to include three divisions, namely: the Association for Mutual Credit, the Syndicate for Production, and the Syndicate for Consumption. This last was designed to procure accommodations for families and single persons at low rents, as well as bakeries, meat markets, fruit shops, and wholesale warehouses selling directly to the public at slashed prices, provided the notes tendered in payment were those of the bank. The two other institutions, which were to commence operations with conventional pecuniary capital, were intended to unite all adherents in this economic conglomerate of the people, cementing the communitarian alliance through mutual credit, the centralization of buying and selling, the expedient disposal of unsold vendibles and surpluses, and the large-scale advertisement of all commercial opportunities. Moreover, the bank was to have an agricultural loans department delegated to buying land from landlords – to be reimbursed in installments (terms varied in accordance with the size of the lots) – and leasing it to the peasantry. "The farm-land sold to working farmers only, was to be alienable only as farming-land and only at a price based on its return on farming: thus it could not become an object of speculation"(Hyams, 1979, p. 190).

The project failed.

> On January 31, 1849, Proudhon in the presence of a notary, set up a society known as the People's Bank, with a view to showing the practicability of free credit. The actual organization differs considerably from the theoretical outline of the Exchange Bank.

> The Exchange Bank was to have no capital: the People's Bank had a capital of 5,000,000 francs, divided into shares of the value of 5 francs each. The Exchange Bank was to suppress metallic money: the People's Bank had to be content with issuing notes against certain kinds of commercial goods only. The Exchange Bank was to suppress interest: the People's Bank fixed it at 2 per cent, expecting that it could be reduced to a minimum of 1/4 per cent. Despite these important changes the bank would not work. At the end of three months the subscribed capital was only 18,000 francs, although the number of subscribers was almost 12,000. Just at that moment – March 25, 1849 – Proudhon was brought before the Seine Assize Court to answer for two articles . . . containing an attack on Louis Bonaparte. He was sentenced to three years' imprisonment and fined 3000 francs. On April 11 he announced that the experiment would be discontinued and that "events had already proved too strong for it", which seemed to suggest that he had lost faith in the scheme (Gide and Rist, 1913, pp. 319-20).

In spite of the foundering of a defiant project, whose theoretical uncertainties were solved by Gesell with a complete reversal of Proudhon's original intuition (as will be shown hereafter), the founding father of associationist anarchism had nevertheless succeeded in carving a lasting tradition in the obdurate block of committed resistance to predatory capitalism. The pertinacious survival of unwarranted privileges had not escaped the attention of Proudhon, as it had not failed to rouse inspite of many contemporaries. What rendered his intellectual ambush disquieting to interested parties was not only the unveiling of the persistent exercise of seigniorial rights – placed in their proper line of influence (beginning with the usurious imposition of banking interest, which then spreads to all other forms of physical capital) – but especially insistence on the protection afforded to these rights by the word of the law, and the bodily menace of public enforcement within constituencies edified as so-called systems of "Natural Liberties". Yet, the actual defeat Proudhon suffered in the field of daily business, with his unmanageable bank, was easily relied upon by orthodoxy to dispose effortlessly of the anarchist's denunciations, which, ably bundled with the recognized imperfections in the bank's prospectus, were dismissed *in toto* as blundered tirades.

Proudhon had exposed himself and his writings by trying his hand at changing the real world. He lost the wager, but gained myriad admirers. One such other admiring Quixote, who would tilt at windmills for an even shorter span of time, was Silvio Gesell, who drew much upon the father of all anarchists, and perfected his insights.

Gesell, "the Incarnated Theory of Interest" Fausses valeurs, Embarrassment, Monetary Dynamics, Dying money, and Free-Land

The worth-less notion of "Value"

> *Antonio:* . . . Is your gold and silver ewes and rams?*Shylock*: I cannot tell; I would make it breed as fast . . . William Shakespeare, *The Merchant of Venice (I, iii)*.

> Ich bin sozusagen die fleischgewordene Lehre vom Zins[2]. (Gesell, 1992, *Verteidigungsrede*, p. 39).

Gesell rejects current and past "labor theories of 'value'", notably that of Karl Marx, although not because of the centrality of (for Marx, a certain kind of) labor for the production process. Instead, he characterizes value as a "chimera" and a "complete abstraction", and thereby eschews any theory of value (Gesell, 1920a, pp. 29-31). Like so many other 20th century writers, he chooses not to conceptualize value substantively, and simply lets the concepts of value and price coalesce (Cassel, 1967; Samuelson, 1958).

Like Proudhon before him, however, Gesell identifies "labor" and "nature" as the sole economically productive resources. "Capital" (after subtracting for the labor of repair and maintenance) is characterized as unproductive, and its yield (money received through borrowing or rental) as "unearned" interest or rents. Suppose we (tacitly or expressly) take the normative view that only "earned" income is morally acceptable or just. Then, we arrive at Gesell's (like Proudhon's) conclusion that "no proceeds of labor" (that is, "what a worker out of the yield of his labor, can buy and convey to the place of consumption") "must be surrendered to the capitalist as interest or rent" or "unearned income". The worker has the moral "right to the whole proceeds of labor" (Gesell, 1920a, pp. 11-13).

Gesell provides an analogous critique of the view encountered both in popular circles and in arguments that attribute the "value" of money to its "substance". That is, its metallic content or backing.

Gesell was irresistibly roused to pique whenever he came across the metallists' definition of a German Mark. These experts typically expressed the value of a Mark as a fraction, a x-th, of a pound of money metal. Evidently, money was valuable because it happened to be gold, silver, or electrum. These substances, being indestructible, afforded a convenient means of saving, beside their assumed qualification as media of exchange. The Law did the rest: it decreed, at a point in time, a certain fine weight of a given metal equal to the national unit of account. But what the Mark truly was, the Law never proposed to define. It went no farther than subdivision: a Mark is 100 Pfennige. Money is accepted, it was said, because it carries the gold-induced "substance", or "intrinsic worth", which makes it in the eyes of the bearers a trustworthy object of barter, and conservation. Yet, Gesell observed that there were countless instances proving that paper money had been swiftly adopted as soon as the opportunity had presented itself.

Was paper less creditable as the medium of exchange, then? And what had befallen the all-pervading faith in value? It so happened that ruling administrations divorced money from the particular material vector employed in the exchanges. As historically recorded, reiterated demonetizations of either gold or silver caused the prices of these metals, as a rule, to plummet. Were goods as a result prevented from circulating? They were not. Merchants and consumers dislike bulk, and choose to employ whatever means best displays facility of use in their daily tradings. Money is not acquired to be kept and consumed, but at least "normally" and eventually to be handed over to procure the goods one needs. What has "value", or usefulness of purpose in an exchange? The products traded; and these are not dealt in relation to a cultured guess as to what their probable value is, but in relation to their market-determined prices. How can it be, wonders Gesell, that silver commands double the amount of value as money than it does as a jeweler's metal? Is not silver a ware that ought to be quoted on the market-board only once? Could the higher value of coined silver be due to its legal enfranchisement as the medium of exchange – a deliberation which vests the metal with attending advantages in terms of prices? It does not greatly behoove the trader to know that a pound of fine gold corresponds to a pound of value. Gold is a ware of limited industrial applicability, denoted by a particular price dependent upon demand and supply, which, if legally sanctioned to serve as the community's means of exchange, becomes altogether a different object, namely the medium of exchange. Failing to keep up with the incessant requirements of an expanding demand for money driven by the division of labor, because it is not abundant, gold-become-money greatly increases in price: it thereby forces the prices of all other consumptibles down (Gesell, 1992, pp. 61 and 132). Moreover, metal money covers only a truly exiguous fraction of the paper promises in circulation (bills and merchants' investment paper). Thus, even when a metal standard is in vogue, the lion's share of most transactions is in reality secured by "valueless" paper-notes and paper-promises. "The coined money of a country is a drop in the ocean of uncoined money (that is, all agreements to pay money)" (Gesell, 1920a, p. 59).

State-licensed bank notes carried at first an inscription, under the Mark amount, assuring the bearer his note would be redeemed in fine gold should he present it to the issuing bank; but seldom were they redeemed, even when the metal-standard seems to be functioning appropriately; and it is not because of the underlying promise of redemption that they circulate (why redeem, and thus destroy, the paper at all, if it is needed anew after each trading cycle?). If the issuer, Gesell contends, promised, say, a cow, instead of fine silver, most holders would rush to the bank with a halter for the cow (Gesell, 1920a, p. 35). It is rather because paper – the most expedient expression of money – fulfills what is expected of it: to effect exchange in the most impersonal manner. By definition, the medium of exchange is to be passed on – as such, it ought to possess as few properties or distinguishing features as possible.

> Everyone feels for the substance of money what the merchants feels for his wares, icy indifference . . . Of all natural products gold has the fewest properties, the fewest uses in industry and agriculture. To no substance are we so indifferent as to gold, hence the facility with which it could be adopted as money . . . Money is to be simultaneously a ware and a material for the satisfaction of personal needs. Money is to be a hybrid, an impossibility. The moment the money-material became useful to all its possessors, money would cease to exist . . . It is not the money-material, but the function of money as the medium of exchange that covers money and ensures the economic demand for it . . . Except the division of labor, there is no covering for money. Whether the money is made of gold, silver or paper has no influence (Gesell, 1920a, pp. 55 and 62).

Now, add to the foregoing that money, being the expression of a community's wealth, cannot exist but for the encompassing sense of belonging of each trading member to that community. Money, in this sense, is the monopoly of the state; without it, it cannot exist. Then, the state were – the embodiment of that community's will – to make paper money the going standard of exchange, gold, metal and value would be discountenanced at once, and true money would become firmly established. This radical and collective conception should appear all the more workable, as the money-material, as shown by innumerable precedents, is no security against misuse of state power in monetary matters. However, Gesell did not advocate public management of money or investment, but public issuance of money through a Federal (or National) Currency Office (*Reichswährungsamt*) charged with the task of injecting or withdrawing currency in accordance with the needs of private businesses (Gesell, 1992, p. 79). Governments should only be deputed to administering schools, religion, and arms (Gesell, 1992, p. 61).

Let the reformer demonetize gold and chase the chimera of value, he shall thenceforth concern himself only with the lightness of prices, which, unlike value, are observable. Money stripped of the "heavy unreality" of metal standards is thereby left to manage products awaiting exchange. Hence, the new elements at play are: goods, a price index, and supply and demand.

The embarrassing law of supply and demand

The purpose of doing business, says Gesell, is to embarrass and exploit one's trading partners.

> In gaining possession of an object which is useless to us, but which we assume or know will be sought after by others, we can have only one purpose in mind, namely to embarrass others and then to exploit their embarrassment. Our purpose is usury, for to bring someone into embarrassment in order to exploit his embarrassment, is to practice usury. And the more urgent is a person's need of an object the higher will the owner screw up his demands. The fact that exploitation is mutual may possibly extenuate the offense, but it is nevertheless true that exploitation of our neighbor's need, mutual plundering conducted with all the wiles of salesmanship, is the foundation of economic life. Upon this foundation is built the whole fabric of exchange; it is the fundamental economic law which automatically regulates the relations in exchange, that is, the prices of all commodities. Remove this foundation and our economic life would collapse. The only remaining method of exchanging commodities would be the Christian, Socialistic, Communistic method of mutual giving . . . The difference between commerce and usury is a difference in degree, not a difference in kind (Gesell, 1920a, pp. 38 and 40).

Now, what is the ratio of exchange between money and wares in the light of the revealed nature of commerce and trading?

If there is no such thing as the "value" of money, but only its price, what should this price be? The "price of money" is the amount of commodities that must be offered in exchange for a certain amount of money. This price can best be expressed in commodities. Therefore, the measure of all exchange may be conceived as a simple, weighed, average index of a representative basket of goods. If the average price of such a basket should fall by x percent from one period to the next, money is thereby enabled to command more commodities; the remedy in this case would be to augment all the commodities' prices by x percent, by bringing more money into circulation (Gesell, 1920a, p. 68).

The price is determined by the interaction of supply and demand. The supply of wares corresponds to the demand for money, just as the demand for wares has its counterpart in the supply of money. The two notions may be used interchangeably.

But once society leaves primitive economy and barter behind, and division of labor becomes more and more firmly entrenched, money becomes increasingly important, as the indispensable, universal medium of exchange. The "compulsion to sell (goods)" and therefore to demand money becomes "absolute", whereas the "demand for other wares" and thus to supply money in exchange for goods becomes "far less urgent". (Gesell, 1920a, pp. 24 and 48). Purchases follow sales, but not always immediately. Hence, a monetary economy exhibits a proclivity toward an insufficiency of money and an associated superfluity of goods, and thus an excess demand for money and an insufficient demand for goods, as contrasted to an opposing set of money-goods relationships or an equilibrating tendency.

All wares offered for sale make up the demand for money. Yet a bill of exchange creates no demand for money, for it is not a commodity; it is a request for liquidity, and as such it expresses a desire for money, whose price is not "the market price", but the rate of interest. "Desire for money", avers Gesell, "is complicated, demand for money is simple. Desire for money comes from a person, demand for money comes from a thing, from a commodity awaiting sale" (Gesell, 1920a, p. 76, emphasis added). "Desire" and "demand" for money, the one regulated by interest, the other by price, have nothing in common. From the annual flow of the demand for money (supply of wares) must be deducted the stock of wares exchanged by way of credit. That is, less currency is needed to effect the exchanges. "If the sum of credit transactions increases, the demand for money decreases; if credit decreases, the demand for money increases proportionately" (Gesell, 1920a, p. 85).

The supply of money (the demand for commodities) depends chiefly upon the stock of money. However, as Gesell's theory of interest is bent on elucidating, the supply of money does not always coincide with the stock of money. This implies that the existing stock of money is not at all times available to carry out the acquisitions demanded of it. And it is, at this juncture of the Gesellian investigation that the embarrassing pressure of usury begins to surface with more than just passing allusiveness. From the vicissitudes wrought by the tension between the supply of and demand for money, one may sample repeated instances featuring a drastic fall of the general price level followed by a precipitate retreat of circulating money to bank shelters, which withdrawal then forces down the expected interest rate on real capital (Gesell calls this the "profit rate"). The sequence is thus: falling prices leading to declining money rates. In the opposing case, banks are emptied, as signaled by a rising money rate, because the supply of money is too great (a state of boom heralded by rising prices) (Gesell, 1920a, p. 99). Hence, the monetary relationships of an economy seem to revolve round the unruly coupling of price dynamics and interest requirements. Supply of goods (the demand for money) always equals the stock of wares, but demand for goods (the supply of money) is determined by and proportional to the stock of money, and the velocity of circulation (constantly reduced by innovative credit and distribution solutions). Hence, it allegedly possesses an additional degree of freedom to exacerbate the embarrassment of the "opposing" party, namely: the forces of production, the demanders of money, the suppliers of products. Demanders of money cannot afford to postpone the exchange, for their products would spoil, whereas suppliers (of money), being provided with imperishable articles not subjected to the hastening of time, do not count the anxiety to trade among their chief inquietudes. "On the one hand compulsion, on the other freedom, and the two together determine price" (Gesell, 1920a, p. 96). To elicit the appearance of supply (of money), during the market exchange, demand (for money) is asked to remit a sort of fee. "Wares must pay money a tribute because money is free; there is no other possibility . . . If, for any reason, money cannot exact its accustomed tribute, wares lie where they are, and rot. There is a crisis . . . Demand, the regular offer of money for wares only exists . . . when the condition of the market ensures 1) sufficient security, 2) a tribute for money" (Gesell, 1920a, p. 98).

Not only does a trader stave off embarrassment by deflecting it upon consumers, hired workers, or another merchant, but he also may leverage his neighbor's unease to his advantage by means of this "tribute," or conversely, suffer the constriction thereof at the hands of a possessor of money.

Thus, the nature of commerce is redefined through an institutional re-evaluation of its essential components, supply and demand. The Gesellian portrayal of business affords an historical legitimization of egotism and advantage-seeking proclivities, within a freely competitive society, which becomes, by hypothesis and despite the burdens of the added privileges here discussed, the economic arrangement most conducive to the blooming of modernity's collective promises. The physical and pecuniary (demand for money equals supply of goods, supply of money equals demand for goods) realms are made opposing sides of the same economic coin, and are thereby rendered inseparable. Any disturbance arising in the monetary mechanisms, unmistakably indicated by Gesell as the primary source of all momentous developments in the world of exchanges, is immediately intelligible in terms of production. Yet the damages inflicted by ill managed money upon the inventive apparatus harnessed to Nature's resources, while coming out in the open to dissipate their more or less pernicious repercussions, reveal, if studied attentively, the antidote capable of thwarting the fountainhead of cyclical troubles. Such an antidote, which shall be canvassed below, is Gesell's Free-Money. The culpable institution in this alleged mismatch of economic sensibility between the ways of money and those of products is the aforementioned "fee", or "tribute", exacted by the forces of supply (of money) from the forces of production (demand for money) during the exchange – which is nothing but the descendant of Proudhon's *droit d'aubaine*. The tribute is interest.

Annulling interest and aging the currency

Basic interest

Gesell sharply distinguishes between goods and money. Goods perish, rust and rot. Time consumes both humans and merchandise mercilessly. All things material perish. But one thing does not, and this is money. *Interest is the toll we pay for the usage of money*, illustrated here most vividly by gold.

Gesell charcaterized gold – and the paper money emanating from it – as "the archetype of death". Gold, for instance, owes its eternalness to the fact that it "neither rusts nor rots, neither grows nor decays, neither scratches, nor burns, nor cuts. Gold is without life, it is the archetype of death" (Gesell, 1920a, p. 52). Since it is such a formidable medium of exchange, men have vied to possess as much of it as they possibly could. Would one rather have goods, which progressively lose value, or gold, that never does and thus have the option to purchase whatever is desired?

Modern industrial society more or less continually extends the division of labor, in a perennial search for technological and other forms of profit and economic improvement. Such development has flooded markets with enormous quantities of goods, and has simultaneously injected liquidity in the system to let the cycle of exchanges run smoothly. As noted in the preceding section, Gesell argues that the demand for money – that is, the supply of goods – consisting of an aggregate of goods, tangible and perishable, is "inexhaustible", whereas the demand for "other wares is far less urgent". Therefore, though parting with money to buy goods tends to move in the same direction as supply, it may not do so immediately or by the same magnitude, or in an equilibrating fashion. The goods comprised in the supply deteriorate every day, and consequently, fresher merchandise will be sold at a higher price; for the supply of goods, postponing the exchange is lethal. The "purpose of money" requires that the "sale of a product for money shall be *immediately* followed by the purchase of a product with money, to complete the exchange". Purchase must "follow step for step on the heels of sale". Money, however, by reason of its negative properties, not being prodded by "impulses" inherent in the substances that compose the goods, has no fear of procrastinating the transaction with its counterpart. Thus, gold can wait, goods cannot; they need to be exchanged on the market immediately, before they go bad. Therefore, gold has the upper hand in the exchange; the tribute paid to the money-owners originates from this advantage. He, who holds money has no difficulty in asking for a tribute, a reward for his unavoidable services. The premium that is claimed in exchange for the medium of payment – the *conditio sine qua non* for the survival of trade – is indeed interest: basic interest (Urzins), as Gesell calls it.

Historically, merchants were the purveyors of gold. Bankers – the heirs to the *mercatores* – relayed their predecessors' activity: bank paper – sealed by the collusion and authority of the state. They are the private providers of the means of payment, and for their service a fee is demanded: interest. Indeed, unique among all kinds of commercial paper, the note of the state, promissory of redemption, is being paid interest by the holder, who, as such, is the creditor and thus should be, in accordance with the conventional schematism of the law, the party receiving interest. Instead, the creditor bearing the note is the one remitting interest. "The drawer or issuer of the bank-notes, the State, is really the creditor, and the holder of the bank note is the debtor". (Gesell, 1920a, p. 23, and 1992, p. 119).

For millennia, the average price of money, according to Gesell, has hovered around five or six percent per year. However, although basic interest appears during the exchange, the role of the merchant, indeed, reduces to that of a mere "taxman-middleman", since basic interest, which has to be recouped from of the margin earned, must be handed over, unfailingly, to the provider of money: the banker.

It is sometimes thought that interest reflects Nature's fertility. It is characterized as a bonus that is legitimately asked by the money-lender to the borrower by virtue of the fertile increase associated with all natural elements. This metaphorical shortcut, however, imputes to the bargaining parties a foreknowledge of a complex mix of actions, interactions and reactions among nature, consumers and pecuniary trends, that is not warranted as a matter of necessity. Indeed, it wishes to intimate that the interest rate is set with a foregone understanding of how prices and the underlying factors of supply and demand (of commodities) will absorb any monetary injection, in such a way that the particular percentage that is charged to the borrower – the x percent – is a mirroring image of the physical increase triggered by that additional, loaned, money (e.g. the entrepreneur-borrower is allegedly charged, say, 10 percent, with the tacit hypothesis that he shall increment production, with the same inputs hitherto employed, by 10 percent).

On the simplest plane of consideration, two scenarios need be considered: either the banker refuses to put more money in the system – in which case he will exact the interest by commanding a greater portion of a representative bundle of goods, whose price has decreased owing to that gain in efficiency brought about by the loan (a so-called productive investment); or, if the price level does not decrease (either fixed or rising), he shall have to inject an additional quantity of money so that he can carve out his quota of interest, which action, indeed, can only be achieved by charging another dose of interest for this second outpouring. The first is a story of deflation, whose main act is the "reminting" of the coin at a higher level (in terms of commodities); in the banking of yore, this cumbrous operation was frequent, and was suffered acrimoniously by the common man who then had his coins and bills, but at a dearer price apiece. Credit dynamics in the modern age came to adhere closely to the second scenario, wherein bankers manipulated credit in such a way as to inflate the price level and extract interest in the price differentials thus created; in such a monetary margin, combining investment bankers, through business, compete against one another by means of technological implements and aggressive marketing. The price rises steadily, at the cost of sizeable injections of credit money and concomitant interest charges, and adversarial consortia bank on efficiency advantages that will enable them to keep abreast of, if not crush, the competition (Preparata and Elliott, 2000). The resulting market tension owes its pull from two sources, the first being the immediate clash among manufacturers, the second originating within the combine itself – that is, between the producer and the banker, who is not willing to unlace the mouth of his purse, if he is not paid interest.

One could try to give credence to the physical basis of interest by hazarding that

> For the organs of production the payment [interest] is of the nature of a revenue of time saved over an indefinite period, which continues as long as wealth is used to facilitate production (Soddy, 1933, p. 154).

But to do so is to fancy that the pecuniary realm reflects unit per unit the dictates of production. It is readily conceded that, upon closer scrutiny, such a one-to-one correspondence between money and production (i.e. between the rate of interest and the rate of physical growth of the economy) is not borne out by factual evidence. For indeed, as a matter of routine, the money-lender asks for a minimal, fixed, rate of interest, irrespective of the actual conditions on the market, which, even if moved by earnest inquisitiveness, he can only perceive within the constricted thrust of his day-to-day economic experience.

At present, it is known that rates of interests do indeed oscillate, that merchants are fully aware of this state of flux, and that they constantly adapt to its brittle whims. Yet, this fixed charge is but one of several components within that impersonal percentage the world at large takes for granted. It hides among risk premiums of various strains, depreciation charges, insurance fees and a *hausse* premium (an addition that is incorporated in the interest in view of expected price surges) (Gesell, 1920a, pp. 275-8), all of which sum up to the incumbent x percent spoken of as "the current rate"; the fixed charge hides among licit economic allowances, but it is of an altogether foreign breed.

The fixed component is usury proper – something in the nature of a pure tribute, an exaction. This is neschek, the bite. The fixed component – concealed like noble metal encrusted in ore – serves as the anchor of monetary construction; it inscribes itself as the primal constraint of the imaginary model portraying the economy: Gesell's basic interest.

Basic interest is claimed as a percentage of some given amount. It is not an absolute figure, but an interloper whose host must bear the countenance of a genuine exchange – a fair transaction. It is something that, expressed in the language of money, Rudolf Steiner would define as the just price. Without defining it, as a clear implication of his theory, Gesell named it the true price, that is, a price, that affords sustenance and covers the expenditures of the producer, and enables him to replicate another unit (or batch) of the same good in the following period (Steiner, 1993, p. 83).

If the existence of such a price is warranted, then that x percent that is torn-off of it is "basic interest" proper – the hard core of usury: the price for the usage of the means of payment.

"What, then, prevents the money-owners from constantly asking for usurious rates?" asks Gesell. When money becomes too expensive, competing media of exchange enters the scene and causes the rate to fall back to some equilibrium threshold (for some given institutional surroundings). To money, the most threatening of these alternative means of payment is the bill of exchange.

> Bills of exchange have the same effect as primitive production and barter, if the claims of money are raised too high. Commodities sold by means of exchange also escape the interest-tribute to money – and a high rate of interest stimulates a more extended use of bills of exchange. Bills of exchange are not, indeed, as safe and convenient as money; in many cases they cannot replace money at all, as is apparent from the fact that they are frequently exchanged (discounted) at the bank for money, although they suffer thereby a deduction. This would not happen if the bill of exchange could always replace ready-money. Nevertheless bills of exchange, particularly in wholesale commerce and as a reserve, have often only slight disadvantages in comparison with money. A slight rise in the rate of interest is in such cases sufficient to cause a preference for bills of exchange ... The greater the insecurity of bills of exchange, the higher is the rate of interest demanded by money; the more heavily bills of exchange are burdened by stamp-duties, the higher are the claims of its competitor, that is, the higher the rate of interest (Gesell, 1920a, p. 229).

The bill is a promissory note born out of the trust of the merchant. Proudhon had already emphasized that, as a medium of exchange, it is not as subtle as money; but it can, nevertheless, circulate smoothly along the chain of production, passing from hand to hand. The tension between the two, as Gesell contends, determines the level of the interest rate; that is, by "how much" money is superior to the bill. The simpler the rules for commercial paper are, the greater the social acceptance of the bill, the faster the circulation of the bill itself, and the lower the interest. The immediate effect of the parallel circulation of bills of exchange would be that of pushing up the prices of goods, since the same stock of money would then be available for a reduced quantity of merchandise (part of it being won over by bills of exchange). Yet, a gradual upsurge of prices would entice money to come out of the vaults in view of a further increase; this renewed circulation would thus be accompanied by a reduction of the tribute, which would finally settle down to its former equilibrium level (that is, compatible with current institutional and productive conditions). Conversely, were the tribute to fall below the threshold, production would be stimulated to a point that would make prices collapse, and when prices collapse, money recoils immediately to hide in safes, lest it be unable to exact the tribute. This sequence of effects would drive up the tribute towards its threshold value.

Prices, rates and monetary dynamics

Gesell avers that the unalterable condition for money to circulate is that prices should not fall. Prices may fall for several kinds of reasons, for instance because of an excess supply of wares; when the production of wares, and therefore the real capital, increases, the interest rate upon the latter falls. "No more money is then offered for the formation of new real capital, and the markets of wares destined to this use ... stagnate". (Gesell, 1920a, p. 109).

Many, Gesell observes, seek compensatory forces that more or less automatically emerge from market exchange processes to reestablish thriving business and equilibrium. Notable among these is "an increased velocity of circulation of money when the demand for money increases". It is imagined that the "wish to buy cheap" when prices fall must bring "increasing quantities of 'money from the reserves' into the market". Gesell rejects this eventuality, not on textbook grounds that downward price (and wage) rigidities prevent the classical medicine from being administered, but because the "contrary is the truth. A rise in prices, not a fall, stimulates the merchant to purchase; a fall in price can only injure him". Gesell offers several examples of how price deflation makes matters worse rather than better (Gesell, 1920a, p. 102).

First, consider overall demand and supply relationships between money and goods. If capitalists dilate payment by holding on to their money, demand for goods is reduced. But, because the supply of goods exceeds demand, demand must fall still further. And because "production continues to throw new masses of wares upon the market, so the stock of wares increases if sales are interrupted. . .Supply therefore becomes larger and more urgent because demand hesitates, and demand hesitates simply because supply is too large in proportion to demand. Demand becomes smaller because it is already too small, and supply becomes larger because it is already too large". (Gesell, 1920a, p. 100).

If prices do fall, the margin above the cost of production is virtually eliminated and therefore there is no slack from which interest may be carved off. Price reductions, instead of stimulating demand, may actually reduce it. If prices are falling, the merchant is reluctant to buy wares "for fear that what he is tempted to buy so cheaply today could be bought still cheaper tomorrow" by his rivals who could then out-compete him. No businessman, Gesell contends, "will discount a bill at the bank and undertake the obligation of paying interest if he suspects that the product he thinks of buying may fall in price". In any event, prices need not actually fall to cause adverse reactions concerning the supply of money or demand for goods. It is sufficient, says Gesell, for there to be a "general opinion that prices will fall", whether correct or not. In such a case, "demand hesitates, less money is offered", and therefore what was feared or expected (that a crisis will turn into a slump) "becomes an actual fact".(Gesell, 1920a, pp. 98 and 101).

Second, price deflation according to Gesell is a prime accompaniment of a crisis and, in turn, a paramount cause of the descent from crisis to depression. Although its redistributive effects may be neutral, deflation is seen by Gesell as extremely precarious for both creditors and debtors and contributing thereby to collapse into depression:

> The crisis breaks out, merchants' assets dwindle and their liabilities (in proportion to their assets) increase. Anyone who has signed a contract to deliver money finds the engagement difficult to keep because of the falling prices of commodities (his assets). Suspension of payments begins, and the exchange of wares becomes a game of chance. For these reasons, credit sales are restricted and the demand for money is increased by the whole mass of wares hitherto exchanged by way of credit just at a time when money is scarce and therefore disappears (Gesell, 1920a, p. 102).

This process is reinforced by the tendency of banks, in the interest of safety, to increase their own money hoarding and to decrease their offers to lend, thereby reducing money supply.

Third, Gesell rejects equilibrium analysis of money, goods, and prices, in favor of economic dynamics. Thus, the economy is rarely in an equilibrium state. Instead, it "proceeds from crisis to crisis", tumbling through cyclical waves of expansion and contraction in between. Consequently, Gesell claims, "the equilibrating forces, of which so much is written, never come into play. The evil is intensified, not mitigated; there is no sign of any compensatory tendency". (Gesell, 1920a, p. 89). Even if we commence, for purposes of discussion, with overall monetary equilibrium, its continuance, in real historical time, is unlikely. Especially if what is to come is not clearly foreseen and gloomy expectations of future profitability of capital investments occur, then disequilibrium, indeed crisis, may very well prevail.

Finally, Gesell's analysis of employment and unemployment is brief, but in line with his general discussion of the relationships among money, goods, interest and prices. In the kind of economy in which we live, owners of money do not search for goods. Owners of goods (as, for example, workers) search for money, that is, jobs. If successful, production of goods and employment of labor will rise together. Low demand for goods and high demand for money carries with it a corollary of low demand to employ labor, and associated unemployment. A crisis in the goods market (insufficient demand for goods) and money market (insufficient supply of money) implies a parallel crisis in the labor market (insufficient demand for labor to generate full employment prosperity). Deflationary processes in prices contribute to descent into depression, thereby making things worse than better. Analogously, at least by inference, deflationary processes in money wages, instead of stimulating greater employment, encourage employers to delay hiring until "a more propitious moment". In an ensuing slump, "overproduction and unemployment occur" simultaneously (Gesell, 1920a, pp. 178 and 180).

Within the Gesellian discourse, the idea of money and, proceeding by degrees, eventually was divested of the institutional privileges that resulted from having assimilated the nature of the means of payment to that of a commodity. The argumentation here moves contrariwise to that disposition keen on vouchsafing the medium of exchange's virtues, whose function is to prevent money from serving as an indicator relating transactions of perishable wares and their perishable transactors (people). In Gesellian lexicon, "scarcity" (i.e. rareness of a product or resource that is in demand) is thus to be designated as an obsolete figure of economic speech that made gold the "perfect form of money". In a rentier capitalist economy, the villain of the story is the finance capitalist, to whom interest must be paid. If insufficient demand for goods makes this impossible (to the customary degree), the employer leaves "the products of the workers untouched" and the latter are "thrown out of work through the cessation of sales". "[Money] is offered in exchange as long as it can obtain interest, and no longer. No interest, no money!" (Gesell, 1920a, p. 126), says Gesell. The question mooted in such fashion is likely to acquire further perspective as this view is contrasted with those familiar conceptions that liken interest to "the price of the heartbeat"[4], "the natural difference in value between present and future goods"[5], or "the reward for abstinence" (or forbearance)[6].

It would then appear that the mist that has customarily enfolded the notion of "interest" should be ascribed chiefly to two phenomena. The first is the characterization of interest as a natural element of the putative inexorable laws of economics. The second is the confusion between interest on money – that is, basic interest – and interest on real capital. These two variables, argues Gesell, must be clearly distinguished.

Basic interest is a monetary phenomenon: it is the price for the use of the medium of exchange. Owing to the power of exacting a tribute, money may properly be regarded as a kind of capital[7]. Interest on capital is a by-product of basic interest.

Houses, machinery, and plants are "real capital". However, unlike money, these goods do not exact interest during the exchange, so that it may be handed over to the "manufacturing center for the means of payment" (i.e. the banks). Instead, interest upon real capital arises in the course of the production process and is collected by the owners of capital goods.

"This power does not, however, lie in the characteristics of such things, but in the fact that money here, precisely as with the [perishable] wares, prepares the market conditions necessary for the collection of interest" (Gesell, 1920a, p. 240). Houses, machinery and factories are real goods, but owing to the fact that money, at the origin, claims a reward for the services it provides, industrial capital – which has to be financed with money – will have to be allocated in such a way as to exact a similar tribute.

The rate of profit on such investments as houses, factories, and ships (that is, the "rate of interest on real capital") varies inversely with the output of investment goods. If it sinks "below the traditional rate, no money will be given for new undertakings, . . . no more houses are built since no one will give money for new real capital". The "money employed in such enterprises withdraws" to "wait" for more auspicious conditions to recur. The demand for investment decreases relative to savings, the demand for money rises, the sale of wares is interrupted. Prices fall. And, as stated earlier, a crisis occurs. Because of the rate of interest on money "is independent of interest on real capital", in principle, it could simultaneously decrease so as to offset falling profit rates in investment goods. But, there is no guarantee that money interest will fall sufficiently to settle at levels low enough to pull investment up enough to reestablish prosperity. Indeed, when interest has fallen to very low levels (Gesell's figure is "about 1 percent"), "no one will bring his savings to the savings banks; everyone will prefer to keep the money under his own supervision". The economy can thus find itself stuck in a deep slump from which it is virtually impossible to become extricated (Gesell, 1920a, pp. 106-8, 114 and 117).

Usury, a purely monetary phenomenon, propagates its logic to the means of production. Since the foundation of usury is, according to Gesell, the capacity to "embarrass" the counterpart – that is, to enmesh the will of the transacting party –, in the economic realm this condition translates into an artificially limited supply with respect to demand. In other words, in order to collect interest, it is necessary to effect a willful curtailment of goods and services. Money, machinery, factories, houses, and so on, yield interest because they are scarce. Should they dramatically increase, interest rates, in principle could plummet toward zero.

This is too unequivocal a proposition not to be reckoned as an overt assault of the view of the "economic problem" as "the problem of allocating scarce resources". Proudhon asked: "why are we short of houses, machinery and ships?" His answer: "because money limits the building of them. Or, to use his words: 'because money is a sentinel posted at the entrance of the markets, with orders to let no one pass'". (Gesell, 1920a, p. 7). In Proudhonian economics, which Gesell brought to higher grounds with his refined theory of interest, the economic problem becomes the problem of freeing resources that are made artificially scarce.

The factors of production, so the argument runs, are burdened with interest since the whole system is geared to a monetary standard, anchored by basic interest. This is presumably what Gesell has in mind when he asserts that interest upon capital is a by-product of basic interest. More specifically, basic interest is the equilibrium value where interest upon which capital converges to[8].

Dissension with and separation from Marxist socialism is made complete by noting Gesell's disposition of the thorny issue of labor grievances and proper remuneration, not as an attack upon the canons of value or control over labor in production, but as a conspicuous lesson in the rigidities of money.

> The employer does not buy work, or working hours, or power of work, for he does not sell the power of work. What he buys and sells is the product of labor, and the price he pays is determined, not by the cost of breeding, training and feeding a worker and his offspring (the physical appearance of the workers is only too good a proof that the employer cares little for all this), but simply by the price the consumer pays for the product. From this price the employer deducts the interest on his factory, the cost of raw material, including interest, and wages for his own work. The interest always corresponds to basic interest: the employer's wage, like all wages, follows the laws of competition: and the employer treats the raw material he intends his workmen to manufacture as every shop-keeper treats his merchandise. The employer lends the workmen machinery and raw material and deducts from the workers' produce the interest with which the raw material and machinery are burdened. The remainder, so-called wages, is in reality the price of the product delivered by the workmen. Factories are simply, therefore, pawnshops (Gesell, 1920a, pp. 258-9).

In this portrayal, the factory itself is capable of generating interest, insofar as the total number of factories is scarce (and wage-labor is abundant). Machinery is scarce and so are raw materials. And, again, the determining factor along this chain of subsequent constraints, is the original exaction of basic interest.

Gesell's is a chronicle of stunted growth and lost opportunities, of confused hoarding and necessitous chicanery, and the culprit of all such aborted feats is an elusive form of disregard for transitoriness, which finds embodiment in gold and all its virtual derivatives, as a means of evading death and decay.

Dying money

Proudhon attempted to remedy the unfair advantage secured by the forces of supply (of money) vis-à-vis those of demand (supply of wares), by proclaiming all products money. Yet Gesell demurred: "However efficiently we may organize Proudhon's exchange banks, we cannot save the newspaper in the hands of a newsvendor from being reduced two hours later to waste paper, if it fails to find a purchaser . . . How can we ever raise goods to the level of ready money (gold) in the eyes of the savers? . . . Proudhon had overlooked the fact that money is not only a medium of exchange, but also a medium of saving, and that money and potatoes . . . can never in any circumstances be looked upon as things of equal worth in the chests of the savers". (Gesell, 1920a, p. 8).

Orthodoxy had raised the same objection: to forget that gold-money is also a convenient means of storage on account of its imperishability, is to invalidate any challenging experiment aiming at de-monetizing conventional money (Gide and Rist, 1913, p. 313). To orthodox critics this refutation seemed proof enough that gold was unmovable from its elected position of monetary vehicle.

But there was a third way. Not to persevere in error, nor to yield to orthodoxy. Not to ennoble goods, nor demote metals, but to demonetize gold, adopt paper (a certificate for each product, no more no less), and make this last simulate the life of goods. Make the paper-money decay.

The monetary system dreamed of – one freed from all kept money-owners deriving an income for supplying what ought to be the "most public" of all goods – is a system tenanted by free-money. Free-money is perishable money: if money were given an age by stamping it, and thus make it lose value day after day (or, e.g. on a monthly basis – the time interval for affixing the stamps on the scrip is a matter of convenience and arbitrary choice) like any other good provided by Nature, it would be irremediably forced to circulate.

No one thus would be inclined to hoard it; there would be available funds for all sorts of enterprises. One would reckon a paper bill for each good, and not too few bills for a glut of commodities (deflation), or too many notes for only a few commodities (inflation). The rate of interest would taper off and finally become zero. This proposal is brought forth as the completed synchronization of goods and money: the purpose being that of making money as perishable as the products of industry broadly defined.

For petty transactions, the public would use a definite sum of paper scrip, which would lose value as time passes. The stamps would be on sale at government offices, and the revenues forthcoming therefrom would be tantamount to an effective taxation of the community.

The amount saved by households would be entrusted to the care of credit institutes, which would be compelled no less than their clients to keep it in motion: state-sanctioned depreciation would enjoin the institutes to loan such savings to entrepreneurs. By dint of such stimulus, trades are likely to flourish, accompanied, as they would be, by bouts of renewed inventiveness within the realms of organizational and technical improvement.

A rate of interest equal to zero implies a corresponding investment so intense as to keep depreciation and dilapidation at bay – an endeavor the saver would have had to accomplish alone and thus imperfectly – had there not been the opportunity to delegate such a task to an enterprising counterpart by the means of organized lending and investment. Paraphrasing the gist of Gesell's "Robinson Crusoe" dialogue (wherein Crusoe finds it advantageous to offer a zero-interest loan to a shipwrecked stranger, who offers to fight depreciation for a lonely and hapless Robinson, and feed himself with the proceeds of the loan) (Gesell, 1920a, pp. 217-20), a null (or even negative, depending on the rate of depreciation of a given environment) rate of interest may thus be deemed a convenient arrangement by the owner of several (perishable) resources, who could scarcely manage to warrant an airtight protection of such goods, be they foods, barns, or buildings, from the persistent wear and tear of secular necessity. He is then willing to confide to a third party (the investor) a portion of the goods laid in (saved) exchange for a promise on the part of the newly appointed care-taker to return that same amount, say, a year thenceforth. The zero-interest contract (loan) is a bargain for both parties, for the saver sees his possessions reconstituted by the end of the year, and the investor (or entrepreneur) derives sustenance (and an eventual surplus) from the employment of another's property. The terms of such an agreement do not preclude the possibility for the agents to span a whole range of investment opportunities.

> If the saver wishes to be quite secure from [insolvency] he will use his savings to build, say, a house for letting. With the sums annually written off as depreciation, which are at the present day also included in house-rent, the tenants will gradually repay the whole cost of building. And the form of building chosen will be determined by the amount of depreciation the saver wishes to receive annually[9]. He will build a stone house if he wishes to receive 2% depreciation annually; he will put his savings into shipbuilding if 10% depreciation suits him better; or if he needs his money soon, he can buy a powder-factory, when the sum set aside for annual depreciation will be 30%. In short, he will have ample choice (Gesell, 1920a, p. 255).

Gesell does not enlarge upon the impact, within the framework of free-money, of portentous productivity increases on the stability of the price level and the measures to take in order to insulate the latter from the effects of the industrial arts under the pressure of technological change. His blueprint for centralized monetary management in the new system is confined to the sketching of the primary tasks falling to an ad hoc institution, the National Currency Office, which

> does not carry on banking business of any kind. It does not buy or sell bills of exchange; it does not classify business firms as first, second, or third rate. It entertains no connections with private persons. The National Currency Office issues money when the country needs it, and withdraws money when money is in excess ... After Free-money has been put in circulation and metal money withdrawn, the sole function of the National Currency Office is to observe the ratio at which money and the goods are exchanged and by increase or decrease of the monetary circulation, to stabilize the general level of prices (Gesell, 1920a, pp. 139 and 141).

The depreciation rate, i.e. the percent charge to be deducted (at n regular intervals for an amount of (X/n) percent, if X percent is the rate of depreciation) from the freshly issued note of the National Currency Office would reflect the technological features of the particular system. Gesell contemplated possible rates ranging from 5 to 12 percent per annum. As a measure of the liquidity needs of circulation, a competent division of the Office should be appointed to devise a statistical ratio that accounts for the overall rate of depreciation, over a comprehensive estimate of capital appreciation triggered by productive investment. A temporary dearth of currency would be overcome with tax remission, whereas an excessive spurt of liquidity would evaporate of its own accord by dint of the built-in perishability of the means of payment (Gesell, 1920a, pp. 144-6).

To recapitulate, Gesell's storybook on pecuniary vicissitudes is comprised of three main yarns: first, the acknowledgment of a usurious tribute that is asked for the purveyance of the means of payment, as the embodiment of the mundane resistance to transience; this usurious exaction takes the form of a per cent deduction, whose lower bound (the threshold) is to be set in the environs of 2 or 3 percent. Second is the strict causal nexus from such a monetary rate of interest to all other real rates, that is, rates of return upon capital: the former determines the latter, and not vice-versa. This conditioning of basic interest "embarrasses" entrepreneurship to a point where it will have to effect the creation of rent-generating monopolies that mimic the interest-bearing faculty of gold, with a view to securing profit and remunerating the interest-yielding money that is financing the investments: a setting of artificial scarcity makes the levy of an agio (a "plus" above what consumers reckon as the true, or just, price) a matter of resigned apprehension. This anchoring of production to the drift of the *Ur-zins* (basic interest) obtrudes itself as an impediment to the progress of the industrial arts. Third is the remedial advocacy of stamped money as a means to defeat hoarding, and thereby break this fettering of physical expansion. Investigators concerned with, yet sadly weighed down by, the worldly intricacies of human maneuverings, have always found difficulty resisting eager, though somewhat facile, analogies with the enviable, ethereal, god-like poise of the physicists' models. Gesell made no exception when he contemplatively imagined his "absolute currency" [free-money], free at last from any cumbersome link to a given metallic ware, circling round the average price index, much as the earth circles around the sun (Gesell, 1992, p. 72).

Free-land

> The land shall not be sold for ever: for the land is mine; for ye are strangers and sojourners with me (Leviticus [25-13]).With rent, no exchange takes place; the receiver simply pockets the rent without giving anything in return. Rent is a part of the harvest, not an exchange and that is why the study of the problem of rent can offer no basis for the solution of the problem of interest (Gesell, 1920b, p. 93).

When the school of British Classical Political Economy talks of rent, it talks of "the surplus produce of infra-marginal land where productivity [is] greater than at the margin" (Dobb, 1973, p. 68). In plainer words, this means that the difference between the yield of mediocre land (the plot at the margin – i.e. the term of comparison) and the yield of any lot of greater fertility, or intensity of cultivation, is a positive amount (of produce, or its equivalent in money), called rent, which must be rightfully remitted to the legal owner of the "infra-marginal" (more fertile) land. David Ricardo, a notable exponent of such a tradition of thought, observed that plentiful land to be had for nothing by any one bold enough to reach and till it, such as colonial acreage, yields no rent. "Rent", he and his followers believed, "is the result of the grievous necessity of having recourse to relatively poor land under the pressure of population and want". (Ricardo, quoted in Gide and Rist, 1913, p. 143). At successive intervals, as population expands, corn (taken as the symbolic ingredient of survival) is cultivated on increasingly inferior soils, and the price of the crop, therefore, rises in proportion to the greater effort that is gradually exerted in farming these "marginal" expanses of poorer land. The profit accruing to the proprietors of superior soil from the higher prices set by harvests "at the margin" is rent. A possible way of escape from this spiral of high prices and exorbitant rents might be resort to emigration, although the classical economists saw that transport costs had to be added to cheap corn prices obtainable from colonial accessible expanses, and such a costly addition tends to annul any saving in the costs of production. "Distance and sterility, as J. B. Say remarks, are the same thing" (Gide and Rist, 1913, p. 148).

Purged of overpopulation's direful forewarnings, Gesell's theory of rent is based upon somewhat similar premises. The marginal land – the mediocre soil or the fertile expanse of afar – Gesell terms "freeland". The yield on freeland is likewise taken as the reckoning term of comparison for estimating the differential gains of more fertile or more favorably situated land. There is freeland, of first, second and third class. Freeland of first and second class is the cheap land of North and South America – the immigrants' and adventurers' lots of hopeful enterprise. Second class differs from first class freeland in that it is land already appropriated by owners that are, in any event, so few and far between that conditions for leasing it from them remain fairly advantageous. "Rent reduces the proceeds of labor of all cultivators of the soil to the yield which may be looked for from unreclaimed land at home, or from unreclaimed land in the far-off wilderness. The proceeds of labor on freeland, wasteland, marshes and moor determine how much the landowner must pay as wages or how much he can claim as rent". (Gesell, 1920b, p. 18). The proprietor sees its rent "protected" by freight costs in the case of cheaper crops from the Americas; and by capital investment in the case of marshes and other swampy tracts, were these to be reclaimed. If both types of expense exceed the cost differential of cultivation between domestic land and, respectively, superior foreign fertile land, or infertile land at home, the domestic proprietor is enabled to exact rent[10].

> The product of the poorest, remotest and therefore often ownerless sources of raw materials, loaded with freight charges and with the wages paid to work the more favored sources of similar materials, forms the basis of the price of these materials. Whatever the owners of the favored sources save in the cost of production, is rent. The consumer has to pay for all the products of the earth, for all materials, as if they had been produced on wasteland at great expense, or conveyed at great expense from ownerless land (Gesell, 1920b, p. 48).

"The most important freeland, however, and that which is also of the greatest significance for the theory of rent and wages is freeland of the third class, which is everywhere available close at hand"(Gesell, 1920b, p. 26). Freeland of the third class is European land that can be conquered and converted to human purposefulness by means of inventiveness: it comprises the swamps, marshes and hunting preserves at home, and the "sky" in the center of Berlin ("from the fourth story upwards towards the clouds"). As for urban tenanting, "every advantage which Germany offers for professional, intellectual and social life is confiscated by rent on land. Rent is poetry, science, art and religion capitalized . . . The more pleased a man is with his country and his fellow citizens, the higher the price charged by the landlords for this pleasure . . . Homesickness is the bulwark of the rent on land". (Gesell, 1920b, p. 23).

> Agricultural rent captures all the advantages of situation and nature, leaving wasteland and wilderness for the cultivator; city ground-rent claims for itself all the advantages of society, of mutual aid, of organization, of education and reduces the proceeds of those engaged in city industry and commerce to the level of the producers isolated in the country (Gesell, 1920b, p. 51).

If one were to pool all the products and services of industrial workers, merchants, physicians, artists, agricultural workers, and purveyors of raw materials, that could be obtained without the advantage of social organization and away from populous center; if one were to pool these products, defalcate interest therefrom, and finally "distribute them according to the prevailing day-wage scale, every one [would get] exactly the products which he [could] actually procure in the shops and markets with his present-wages. The difference between this amount and the total produce of the aggregate work performed goes to make up rent and capital interest" (Gesell, 1920b, p. 52).

Thus, the exaction of rent is protected by:

(1) freight costs;
(2) capital investment and scientific discoveries implemented to converting wasteland or building upwards; and
(3) the bustling and fermenting of mutuality and human creativity that is concocted in the urban crucible.

The second type of "protection" afforded to rent is of course dependent on the rate of interest. "Whatever the nature of the proposed reclamation, the first question is always the amount of interest on the capital required, which is then compared with the rent demanded for land of the same quality" (Gesell, 1920b, p. 44). The entrepreneur must be assured that the amount of rent he shall be claiming from the site, he is deciding to build upon, will cover the interest charges he has to sustain to launch construction.

> A fall of the rate of interest would not only enlarge the area under cultivation, it would also enable men to extract double or treble the amount of produce from the present area through the extended use of machinery, the construction of roads, the replacing of hedges by fences, the construction of pumping stations for irrigation, the drainage of the soil, the planting of orchards, the provision of appliances to protect the fields from frost and a thousand similar improvements. This, again, would necessitate a reduction of the cultivated area, and make freeland, the great menace to rent, more accessible (Gesell, 1920b, p. 44).

Were interest to vanish, cereals and grain would no longer need to be shipped from Manitoba to Holland; with interest leveling off at zero per cent, "every country will be able to provide bread for its population". A high rate of interest is thus seen to cement the alliance between capitalist and landlord, as the one earns more from his coupon-clipping, while the other benefits from higher rents.

For Gesell, nothing short of the nationalization of land could be regarded as effectual abolition of such privilege. Repeatedly demonstrated by experience, nationalization wishes to convert the whole land of the country into leaseholds farms held from the state. Only then could the unhampered interplay of free initiative ripen to perfection. Private or public rights on the land must be abolished, says Gesell, for "we are all natives of the earth". The land ought to be leased to cultivators "by way of public auction in which every inhabitant of the globe without exception can compete. The rent so received goes to the Treasury and is distributed monthly in equal shares to mothers according to the number of their children . . . The parceling of land is governed entirely by the needs of the cultivators"(Gesell, 1920b, p. 55). Small lots for small households, large acreage for numerous families. And also, never to forget the world of one's sympathies, "large tracts for communistic, anarchistic, social-democratic colonies, for cooperative societies, or religious communities. The present landowners will receive full compensation, in the form of state bonds, for the loss of their rents".

"At first", Gesell concedes, "nobody gains or loses by the redemption of the land" (Gesell, 1920b, p. 58). The interest on state-bonds, which erstwhile proprietors receive in the stead of their old estate-revenues is paid by the state with the rents it may currently claim as the sole owner of the land: it is as if rentiers and state had changed nature with each other. The stratagem, of course, is to couple the reform Free-Money with that of Free-Land, with a single view to gradually lowering the rate of interest, so as to remit ever decreasing amounts to the new holders of the state obligations (the legally dispossessed landlords). When, it is hoped, interest should bottom out at zero percent, the state-collected surplus in the forms of rents, coming forth as a net gain, whole unto itself, (no more interest payments to be budgeted), would de-cumulate over the spread of society, in a trickling fashion, much like a stream of donations. By proceeding thus, the new possessors of the land are at all times unable to appropriate unearned profits from their leasehold: high agricultural prices signify high rents, which are accordingly collected by the treasury.

> If a [man] returns to society, as rent for his farm, the rent which he collects from society in the prices of his farm products, he simply acts as an accountant or tax gatherer; his right to the soil remains intact . . . The rent paid for the farm is not a levy on the soil, but a return for the rent which he raises from society in the prices of his products, and which is given back to him in the service of the State (Gesell, 1920b, pp. 84 and 85).

Moreover, the reform envisages full provision against a violent surge of agricultural prices, due to frantic bidding for fertile land, as a possible event immediately following the introduction of Free-Land. Such an occurrence would entail no loss for private interests, for whatever gains are obtained from the price surge would be re-circulated by the treasury (collecting the heightened rents and re-conveying them to the economy), thereby checking any faltering in the purchasing power of the community. Most important, and most likely, dear food would make cultivating "sand dunes and boulder-strewn slopes", economically profitable – indeed, abnormal price increases would break the barrier of prohibitively expensive investment, and encourage scientific experimentation with terrain deemed theretofore unsuitable for cultivation.

As for city dwellings, Gesell, like Proudhon, is favorable to municipalization schemes such as that adopted in London, whereby the land is secured to the tenant for terms running for several decades, "the annual rent being fixed in advance for the whole term of the tenure"(Gesell, 1920b, p. 69). However, the mindful acknowledgment that empires rise and fall, and with them their fortunes and cities, is sufficient grounds for doubting the security of such a long-term arrangement, whose risk for the tenants, who might find themselves saddled with fixed payments higher than those that might be brought about by deflation and/or metropolitan abandonment, ought to be minimized by the lease-giver, in this case the state, "in the form of a reduced rent"(Gesell, 1920b, p. 70).

In the end, when perishable money will have annulled the interest payments claimed by bond-holders dispossessed of their estates, and cloyed the world with immeasurable abundance, the bounties arising from appropriated rents will provide an ingenious means to extend cultivation to rough and unyielding surfaces; the rents will be channeled as subsidies to women, who will thus forbear exerting themselves too keenly in earning their livelihood, and shall thereby make use of the donated time to properly answer the natural call of selective breeding. Because freeland is also a solution to the problem of "feminism".

> In sexual matters her inclinations, wishes and instincts would decide. A woman would then be free to consider the mental, physical and race-improving qualities, and not merely the money-bags of her mate. Women would thus recover the right to choose their mates, the great right of natural selection (Gesell, 1920b, p.78).

Banishment of interest, banishment of rent – banishment of property in the Proudhonian sense, racial betterment, and lastly, an intoxicating world, an untrammeled voyage of opportunities paid for with freemoney, but is truly funded by the fury of curiosity. This is, in short, the vision of Silvio Gesell.

> The bodily and spiritual needs of man put out roots in every square foot of the earth's surface, embracing the globe as with the arms of an octopus. Man needs the fruits of the tropics, of the temperate zones and of the north; and for his health he needs the air of the mountains, the sea and the desert. To stimulate his mind and enrich his experience he needs intercourse with all the nations of the earth. He needs the gods of other nations as objects with which to compare his own religion. The whole globe in splendid flight around the sun is a part, an organ, of every individual (Gesell, 1920b, p. 87).

Conclusions

> The privileges attached to the private ownership of land and money [have consigned mankind] to a 6000-year capitalistic ill-breeding (*Unzucht*). In the Natural economic Order selection under free competition untrammelled by privileges will be determined by personal achievement, and will therefore result in the development of the qualities of the individual . . . [The losers] (*die Minderwertigen*) would merely, because of their inferiority, meet with greater obstacles when founding a family . . . and as a result would have a smaller number of descendants. Beyond all doubt free competition would favor the efficient and lead to their increased propagation; and that alone would suffice to ensure the ascent of man . . . The greater the effect of medical science upon the preservation and propagation of congenially inferior individuals the more important it becomes to preserve in full activity man's methods of natural selection . . . No matter how great the quantity of pathological material resulting from the propagation of defective individuals, natural selection can cope with it. Medical art can then delay, but it cannot arrest eugenesis. Silvio Gesell, *The Natural Economic Order*[11]

One can hardly manage to reconcile any of the main strains of the first German Republic belief with the vision of Gesell, save the regard for selection and social hygiene. The *Natural Economic Order* suffered from its being born somewhat out of phase with most of the aberrant creeds that held sway over Weimar till its telling demise.

As to land reform, it remained in the eyes of many Socialists *petit bourgeois,* too Proudhonian in its unwillingness to give in to the rhetoric of collectivization and in its stubborn retention of the right to possession and free enterprise. On the score of such eccentricity it could not aspire to publicity. The bourgeois, themselves, on the other hand, could not but bemusedly repulse schemes dispossessing them of their deeds and reimbursing them with a dying currency.

Though much responsibility is thrust upon the shoulders of ideal bodies of governance, which alternatively go under the captions of "The People", "The State", "The Treasury", or "The Federal Currency Office", the vision of Gesell came far short of being even remotely authoritarian. Quite the opposite is true. Times without number, and much in keeping with his partisanship for the Manchester ideal, he strongly objected to governmental tampering with the "competitive laws of natural selection". Higher collective bodies in his narrative do indeed collect rents or depreciation fees (in exchange for the money-stamps), but these imaginary appointments issue more from a rallying desire to stem the shadows that were about to engulf Germany, than from the recurring utopian fancy to bring the economy under unbounded command. As mentioned earlier, the currency is founded on the trust of the community – it is the embodiment of an idea – and the Federal Office is confined to supplying the monetary exigencies expressed by free associations, which regroup privately operating individuals. Gesell was clear on this count. Indeed, whether the anarchists are allowed to claim Gesell as one of their legitimate spiritual comrades, or whether his legacy ought to be redirected along the lines of those bent on depicting Gesell as an unconventional inspirer for *maître à penser* John Maynard Keynes – and thus as an advocate of a mild brand of socialism – [12], cannot be a matter of mere choice. No third way is offered.

The association of Gesell with modern economic thinking, via Keynes and his interpretations on the nature of interest, is a moot question deserving a treatment of its own. It suffices to assert at this juncture that, for Gesell, of advocacy of sweeping state intervention, there can be no question. Anarchists may thus keep him as one of theirs. As for the Keynesian connection, it may simply be imputed to the fascination which a few orthodox thinkers in quest of alternative explanations during the depression must have shared with the German and Swiss enthusiasts of the *Bund für Freiland und Freigeld*.

Dying money is the uncompromising intuition that sets the Gesellian brand of anarchism apart from all contemporary developments in the history of thought. It is a hearkening back to the yearnings of Galileo and the Renaissance, a link to the theosophy of Christian mystic Rudolf Steiner, and a lantern shedding light into the arcane gulfs of absentee ownership, money withdrawal, and the intricacies of saving and accumulation; as such, it is a perilous intuition to traverse. To it, Gesell owes the lasting diffidence of the ruling money practitioners and the oblivion of his testimony.

Try as they might to recycle Gesell in the post-WWII West, either by truckling to the Keynesian academic and political strongholds with eager offers of intellectual cooperation, or by glossing over Gesell's discomforting allusions to selective breeding, modern Gesellians are confronted with insurmountable obstacles.

Gesell's opus is a congeries of intuitions, admonitions, pamphleteering, poignant analyses, festering social Darwinism, and chiliastic delirium that defies synthetic collection and univocal interpretation, especially in the light of contemporary economic conformism. It mixes paeans to self-interest with a firm adherence to free trade and free initiative as found in "Manchesterism" (Mosse, 1964, p. 123; Turner, 1985, p. 279), both of which could afford the *NEO* a niche in the dominant corpus of British-spun Liberal economics.

Yet Free-Land, and above all Free-Money, with the disquieting addition of eugenistic proclivities, bar the way to any significant Gesellian inroad into modern economic philosophies.

Furthermore, in a scholar's recent effort to exculpate the Gesellian Bund from charges of anti-Semitism, faintly substantiated by some of the Bund's more naïve members' proffers of collaboration with the Nazis shortly after the seizure of power in 1933 (Onken, 1995), the main line of defense is provided by Gesell's repeated appeals to human brotherhood, and by the insisted likening of the German reformer to Moses, whose calling upon the wrath of God for those disobeying the Law Gesell himself invoked for not adverting the necessary economic laws of nature (propounded in the *NEO*) (Onken and Bartsch, 1997, pp. 12-14).

The parallel, however, effects little either in the way of acquittal or insight, for the Mosaic comminations raging throughout the Pentateuch contain nothing of the early

XXth century's frenzied conviction that blood, if "naturally tended", is the vehicle of virtue and godly deportment, or, conversely, the vector of vice and disfiguring ugliness, if "perversely polluted" – a concern from which neither "[Weimar] left-wing public-health reformers, who included Social Democrats and Communists" (Peukert, 1992, p. 102), nor great German minds (Werner Sombart is a case in point), were immune.

In conclusion, all that which is inherited from the period spanning those ominous 20 years separating the two world conflicts forms matter difficult to shape. Different eras are tenanted by different spirits. Interpretation is made thereby a complex game. To acknowledge the spirits and understand them is the first task. The art then is to discern, to sort the phantasms out of the luminous intuitions.

Notes

1. Namely, the fact that businessmen reckon profits, after having subtracted interest, including that which they failed to cash in by not employing whatever available capital they had.
2. I am, so to speak, the incarnated theory of interest.
3. Gesell, 1920a, pp. 11–13 "Labor", for Gesell, includes providers of both material products and services, in private or public life. "Manufacturers' and merchants' profits, after the deduction of capital interest or rent usually contained in them, are likewise to be classed as yield of labor" (p. 11).
4. "Finally, we may rest assured that amongst men only pleasure is given a price, nay, it is convenience that is bought and sold; and, since one cannot feel pleasure without causing distress and mischief to some other, the money disbursed goes to mitigate the deprivation of pleasure caused to others. To make someone's heart palpitate is hurtful: thus we ought to pay him. What is known as the fruit of money, when it is legitimate, is nothing but the price of the heartbeat; and he who mistakes it for something else, deceives himself" (Galiani, Ferdinando. 1963. *Della moneta*. Milano: Feltrinelli (1780), p. 292).
5. "Capital goods or production goods derive their value from the value of their prospective products; nevertheless, their value never reaches the full value of these prospective products, but as a rule remains somehow below it. The margin by which the value of the capital goods falls short of that of their expected products constitutes interest" [Von Mises, Ludwig. 1989. *The Theory of Money and Credit*. Indianapolis: Liberty Fund (1934)].
6. "Of the gains, however, which the possession of a capital enables a person to make, a part only is properly an equivalent for the use of capital itself; namely, as much as a solvent person would be willing to pay for the loan of it. This, which as everybody knows is called interest, is all that a person is enabled to get by merely abstaining from the immediate consumption of his capital, and allowing it to be used for productive purposes only" [Mill, James Stuart. 1987. *Principles of Political Economy*. New York: Augustus M. Kelley (1848), pp. 406-7].
7. Gesell's definition of capitalism: "An economic condition in which the demand for loan-money and real capital exceeds the supply and therefore gives rise to interest".
8. For instance, if many houses were to be built so as to force interest (that is, rent) below basic interest, money will cease to be loaned until, for a series of circumstances (such as a great population increase), a house-rationing level that will warrant the exaction of basic interest is reestablished. Conversely, if the demand for housing far exceeds the available supply, interest upon capital (rent) would gradually rise above basic interest. The opportunity to exploit the return differential would prompt money to forage real estate investments. The financing would continue until the two rates are brought into equality.

9. One would have to make the additional assumption that additional investors would join in the financing of the enterprise every year, if it is to last more than fifty years (for a 2 percent investment), or ten years (for a 10 percent investment), etc. Otherwise, if all that is set aside is paid out as rent to the creditor, the newly launched venture will not survive beyond the contracted date of the loan (the *n* years of the reimbursement plan).
10. If it costs 10 to produce a ton of wheat in, say, Canada, and freight costs another 10, whereas a ton of German wheat costs 15, the German landowner, though more inefficient, still manages to derive a rent equal to 5, thanks to high transport expenses. The same applies to capital investment (e.g. irrigation or scientific fertilization) for reclaiming land currently barren, but potentially fruitful.
11. Gesell (1920a, pp. xiv, xvii, xviii), and a quote in Onken (1995, p. 12).
12. Dillard (1958), and Darity (1995).

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