OTTO VALENTIN

SOLUTION OF THE SOCIAL QUESTION

or:

Overcoming Totalitarianism

ISBN 978-3-00-023448-4

Table of contents

Preface 2007

When I received Otto Valentin's book "Überwindung des Totalitarismus" ("Overcoming Totalitarianism") in spring 2007, it was already clear to me that I had found a treasure. This book already radiated clarity, comprehensibility and truth from the outside. And right: this book was decisive in ensuring that the connections of previously loose threads suddenly produced a meaningful pattern for me so that I could fully understand Silvio Gesell's ideas.

Otto Valentin's clear and absolutely comprehensible account of monopolies, his explanations of the three factors of production and the right to full labor yield are among the indispensable "basics" of the theory of *free-economy*. Anyone who really understands free-economy and doesn't want to engage in academic debate about it should read Otto Valentin's book.

To make this possible, we have decided to revise his work and removed some passages that are no longer relevant to us today. We have also changed the title so that there is no technical term between the reader and the insight so that the core statement becomes even clearer. The first revisions were my responsibility and never before have work and learning been so closely interwoven as in this book. If you ask me today about my important teachers, you will always immediately get the name Otto Valentin next to Silvio Gesell.

Thanks are also due to Gerhard Valentin, the author's son, who always cherished this book, wished for a reprint and without hesitation provided us with the copyrights. His joy at our rediscovery of his father's work inspired me in my work and gave me the certainty that this book must be preserved for posterity.

I hope that many people will read this book and that its contents, thanks to the distribution via Internet, will be known to as many people as possible in a short time. The simple reason for this is that, globally speaking, we are no better off today than we were forty years ago - on the contrary! Some technical achievements want to make us believe that things are "on the rise" - but the economic facts speak a different language: in 1960, the 20% of the richest people had an income that was 31 times higher than that of the 20% of the poorest people. In 1998, this income was already 83 times higher and today the factor is over 100. The gap between rich and poor is growing wider and wider!

Whoever has read Otto Valentin's book knows not only WHY this is so, but also - and this is much more important - HOW to change it! And only those who see a SOLUTION can find the courage and the strength to act. The assertion that there is "no alternative" isn't true! Otto Valentin provides the proof.

Angelica Garbaya

Berlin, November 2007

Foreword

By nature, there is no contradiction between the laws of life and those of the economy, which provides us with the means to live. If everything went right, we could live a life of freedom, peace and abundance, far from all material and social hardship, provided we were willing to do an adequate amount of work.

But why are we so far away from this desirable state of affairs since time immemorial? Why does the economy keep going through crisis again and again and **often enough deny people jobs** and, if they have found them, the full return on their work? Why is there a constant state of underpayment and almost constant underemployment? Why must humanity, in ignorance of the interrelationships, wage war and fight each other and again and again surrender to political adventurers who enslave it and plunge it into the inferno of new catastrophes? Why is a disastrous development in the direction of state totalitarianism taking place, although abhorred by the majority of people? Why is the economy increasingly turning from a matter of the people to one of the states? Is this development really irreversible? Is there no salvation from the threat of totalitarian rule?

The economic science, whose task it should be to answer these questions, was and is caught up in errors and has not been able to show a way out of the circle of errors. It could not or did not want to realize that the contradiction between what people strive for in good faith - quite in accordance with the classical doctrines - and what comes out of it against their intentions and against theory, is based solely on some inconspicuous shortcomings of the economy, and ***that surprisingly the two main evils of our time, the social disturbances and the economic disturbances, have the same root.***

There is no point in expecting governments to remedy the situation until certain more recent economic findings have become established. Governments have never helped new knowledge to break through, but new knowledge can shape governments. Today, as a result of the oppressive economic and social shortcomings, the state is increasingly faced with new tasks that force it to make ever more far-reaching interventions in the planned economy. In the same proportion as their powers are thereby expanded, they are striving towards the totalitarian system, destroying freedom and thus the happiness of their citizens; but their attraction as a romping place of power-hungry characters will grow in equal measure.

Despite all this, the way out into a better and more peaceful future is clearly ahead of us. For the first time in history, a generation has the key to the permanent full operation of the economy and to the solution of the social question in its hands; for the first time, it has the inviolable spiritual tools to sovereignly determine the day when it will turn its back on the troublesome past of economic exploitation and social hardship and enter into a **natural, i.e. liberal order** of economy and society, which is the basic prerequisite for a pacification of the world and the development of humanity.

And this way out lies by no means in an increased expansion of the state, but rather in the **dismantling of bureaucracy and the administrative apparatus.**

Hard near Bregenz, Whitsun 1951, Otto Valentin

I. The Starting Point

Where are the times of freedom of movement, when you could get to any point on earth between the North Cape and Tierra del Fuego without a passport or visa, as you had a free hand in choosing your profession, activity or workplace? Today, it isn't possible to settle where you want, nor to produce what you like best, in many cases, honestly acquired assets cannot be transferred at will, not even to change your home at will. For all this you need certificates of registration and entitlement, permits and confirmations from all kinds of bureaucratic authorities. Freedom rights, it seems, have reached an unprecedented low point. Gone are the days of a relatively unhindered exchange of goods and services, which all well-intentioned attempts at resuscitation are unable to help get back on its feet. The beautiful, smooth surface of the globe has been shattered into numerous national and spheres of interest as if in shards. And every single shard jealously seals itself off from the other shards. On each of them a centralist bureaucracy has spread, which, creating ever new compulsion, gradually becomes state despotism, crushing the last remnants of individual freedom. It has been forgotten that life cannot unfold on any of these shards for itself alone, without the other shards, that one is dependent on the other, and that the earth, the whole, undivided earth has been given to the people - not to the states!

As a counterpart to the destruction of individual liberties, a general bureaucratization is spreading. The state administrative apparatus is experiencing an enormous inflation everywhere. The number of official buildings and desks, where administration is carried out according to a vast number of regulations, is growing infinitely. While 50 years ago 20 officials were enough to administer a small town of 20,000 inhabitants, today (1950) more than 100 are required. Accordingly, the flood of paper that flows from the countless offices is also growing. There is no end in sight to this development. We seem to be in the middle of an eerie paragraph dictatorship.

The progressive interference of the state in all areas of human life, the increasing handing over of even the most private spheres to its decision-making power, gradually makes it an end in itself, robs the individual of its natural freedom and degrades him as a means to an end. The world seems gradually to become a single prison in which the states represent the individual cells.

1. What is freedom?

Social philosophy teaches us that in human society two principles have always been irreconcilable and incompatible: the individual principle and the social principle. On the one hand, in order to be able to unfold unhindered and to develop freely in his peculiarity, man demands the greatest possible individual freedom. On the other hand, however, precisely because of this undisturbed development, he needs harmony and peace with his fellow men, a peace that only the *organized community is* able to give. But what if, for reasons that seem to be shrouded in mysterious darkness, this community, today embodied by the state, is increasingly driven to curtail individual freedom under the pretext of the social principle in such a way that in the end almost nothing remains of it? Doesn't such a state resemble a man who ate his sons one after the other on the grounds that he must preserve his sons?

Does it not arouse the impression that people are there for the sake of the state, instead of the other way around?

Freedom in this case doesn’t mean formlessness, arbitrariness, lack of order - no, rather freedom in the sense of a *natural order,* that is, an *order adapted to human nature.*

Any unnecessary restriction of this freedom by the state is harmful, whether it restricts the freedom of individual groups of its citizens more than is necessary to secure the freedom of the others, or whether group privileges are established, tolerated or protected. The latter, however, is, as will be shown later, to be blamed on the states without exception (albeit with certain gradual differences). It is especially **economic freedom***,* which has always been restricted by private and state privileges of all kinds. This is highly questionable inasmuch as it is precisely economic freedom that matters. For only those who are economically free are truly free. After all, the economy is the foundation on which man stands, the material basis from which he draws the means for his existence. Economic freedom is therefore **the decisive freedom***.* All other freedoms, whatever they may be called, are only a reflection of the economic freedom which is ultimately at stake.

To exercise an activity adapted to one's inclinations and abilities in free competition unhindered by external circumstances, to be able to satisfy the personal needs of life at one's own discretion from the proceeds of this activity, to have the unlimited right to acquire the goods produced by people, as well as the right of *access* to land, constitutes economic freedom. It includes personal and market freedom, i.e. freedom of movement for persons, goods, payments and messages, and is one of the elementary, indispensable freedoms alongside the right of free expression.

As can be seen, economic freedom is based on the **principle of free competition***.* It is the central concept of freedom around which all other freedoms are arranged. Free is he who is economically free; and economically free is he who can participate in competition without hindrance. Conversely, anyone who is prevented from participating in competition or even excluded from it isn't free. Economic freedom and thus the foundation of freedom in general is nothing other than *the right to participate in competition.*

What constitutes so-called freedom today, on the other hand, is freedom of a *political* nature, which consists primarily of being allowed to say yes or no, or to hand in a piece of paper in any vote, which is usually wrongly called "election". This political freedom is comparatively insignificant; it can be granted *without* economic freedom, just like personal freedom and freedom of religious practice, and is thus incomplete, a torso without limbs.

While economic freedom automatically includes personal freedom, conversely, as the existence of the proletariat strikingly demonstrates, personal, religious and political rights of freedom can exist, but at the same time the decisive economic freedom of participation in competition can be denied, thus opening the door to the economic exploitation of those deprived of freedom.

This fact must not, however, under any circumstances lead to a disregard for these rights, especially personal freedom, because although, as I said, personal freedom doesn't have to mean economic freedom at the same time, conversely personal deprivation of freedom leads in *any case* quite inevitably to economic bondage and thus at the same time has the most oppressive exploitation in its wake. This is shown with all clarity by the institution of *slavery,* which by its very nature is based on the personal and*, consequently,* economic deprivation of freedom. The latter is the only thing that matters to the slave owners, because it makes exploitation - in this case *direct* exploitation - possible.

While the granting of personal freedom may prevent this direct exploitation, it certainly doesn't prevent exploitation as such. When, in North America, with the law of January 31, 1864, the slaves were granted personal freedom in addition to the religious freedom they already possessed, and shortly thereafter, through the Reconstruction Bill, political freedom in the form of the right to vote and to stand for election, the slaves were probably free of their chains and thus the most oppressive form of exploitation, but by no means of exploitation in general, for their economic lack of freedom in the form of an impediment to participation in the competition had remained.

Personal freedom is thus the most fundamental of all freedoms, but just as little as political or religious freedom, it is able to guarantee the heart of freedom, on which it crucially depends: **economic freedom, embodied in the right to participate in competition.**

This economic freedom is obviously very limited today. This doesn't mean, however, that it has existed in its entirety in the past. Quite the contrary. It was, as will be shown, also not realized in the past. It is therefore incorrect to speak of a freedom in economic relations in the past. Compared with today, this freedom existed only in secondary matters.

Idea:

Here a thought involuntarily imposes itself: Was it not perhaps precisely the original *lack of* economic freedom that led to ever more extensive restrictions on freedom? Was it not perhaps precisely because economic freedom was largely non-existent in the past that economic and social tensions arose that led to further restrictions on freedom and thus pushed the development in the direction of totalitarianism? Was not the state, in order to bridge these disturbances resulting from the denial of economic freedom, forced to intervene in the economy to an ever greater extent, which in turn could only consist in an ever greater restriction of competition?

This train of thought is all the more important if, as has already been mentioned above, economic lack of freedom is equated with a restriction or even exclusion of competition. Every such **obstruction of competition for the one must at the same time represent a monopoly for the other**. Monopoly, however, means downright *exploitation,* namely exploitation of one *by* the other, means class formation, class state, *social question,* increased state interference in economic life and social welfare, means bureaucratism, and finally general state economic monopoly in state capitalism (also called "communism").

Already at this stage of observation, the following relationships begin to emerge in rough outlines:

First, that economic freedom is to be equated with free competition, which apparently has not existed up to now;

Second, that there seems to be a causal connection between the lack of economic freedom and the economic and social disruptions that are forcing the state to take increasingly drastic measures;

Thirdly, it seems - to indicate this here already - that "deprivation of economic freedom", "exploitation", "social question", "restriction of all competition" and “monopoly/oligopoly“ are only five different terms for one and the same thing.

In any case, it is astonishing, even puzzling, that the causal connection between the social question - the question of the "management" of people by other people - on the one hand, and the economic lack of freedom - embodied in the economic monopolies/oligopolies - on the other hand, has only been recognized by professional economists in a highly incomplete way. This fact, as will be shown, is due above all to the imprecise interpretation of the concept of monopoly, which has prevented the two age-old **monopolies of money and land** from being recognized as such, even though they are in fact the two *primary monopolies* which bring about all the others. Thus, it came about that people spoke and still speak of a “free" economy, where in reality the coercion of these two monopolies reigns unrestricted. The teachings of economic science therefore had to become "misleading and disastrous when one tries to apply them to reality" (Keynes).

But this was also the reason why the economic and social evils were not recognized for what they were: consequences of the primary monopolies/oligopolies of money and land. For this reason, the causes, the monopoly/oligopoly on money and land, could not be rendered harmless, but had to resort to constant state intervention in the economy. These state economic actions could understandably be nothing more than new restrictions of the most varied kinds, i.e. *additional* monopolies/oligopolies. Such a policy of forcing the economy into ever new regulations and increasing state influence was euphemistically called a "planned economy". The whole arsenal of mercantilistic planned-economy measures was offered in combination with the most diverse social patches to compensate for the disruptive consequences of the two original monopolies/oligopolies. A vain effort! What can regulation, protectionism, import barriers, compulsory foreign exchange, the fight for markets, etc. do in social terms to counteract persistent underemployment – i.e. in economic terms, unemployment insurance, short-time work, expulsion of or discrimination against foreign workers, etc? Are they not a cure-all for the phenomena that is doomed to failure from the outset? Since the lack of knowledge of the true causes prevented the disturbances from being eliminated, the path was taken of restricting the existing remnants of economic freedom - the very path that ends in totalitarianism.

All previous attempts to find a solution have failed. In practice, they have consisted in more or less violently suppressing the appearing social and economic disturbances by the state authorities, in banishing them from the surface. Fascism, for example, is one such attempt. It leaves the cause of the social question - precisely the exploitation caused by the monopoly/oligopoly - untouched and fights its consequences through violent interventions which, by their very nature, have to cover more and more areas of private life and put them under state control. Similarly, National Socialism not only sanctioned exploitation, but almost systematically anchored it through its comprehensive currency, cost accounting, price and wage policies. The national socialist state without hesitation took advantage of the excess profits accumulated by the companies resulting from the forced reduction of real wages for its armament purposes through tax measures. The private entrepreneur increasingly became an organ of the state bureaucracy.

Finally, under communism, private economic activity is deliberately suppressed altogether and a state economic monopoly is created for the alleged purpose of making exploitation impossible; in reality, it is only nationalized. The widespread destruction of economic (and personal) freedom under communism drives exploitation to extremes, proving once again that the cause of exploitation can only ever be found in economic monopolies.

A transformation to state totality must under no circumstances be understood as a unique phenomenon. In the past, parallel phenomena can be traced, which at the same time represented enormous collapses of an economic, social and cultural nature. There has been no lack of interpreters for these phenomena. Oskar Spengler was not the first to attempt such an interpretation in his "Fall of the Occident". He was only the first who - erroneously - mistook cultures for *organisms* and declared their growth, blossoming, maturing, aging, and finally dying to be necessary to nature and unalterable. There is no room here to go into the numerous mistakes of Spengler's attempt to explain them. Only so much may be said that Spengler's view that all cultures without exception must end in state totality - which he calls Caesarism - does indeed seem to be confirmed by historical experience. These historical facts cannot be denied. But Spengler was so caught up in his discovery of the alleged plant-like character of cultures that he didn't even consider the possibility of a different interpretation, let alone make any attempt to do so.

But what Spengler, as a result of his preconceived opinion, understood as a development, as a progress, as a fulfillment and finally as a necessary end, was in reality an erroneous development, a regression into barbarism, a collapse for *technical* reasons. He had completely missed the importance of economic and social connections. He took for fate what really is causality.

The unresolved social question and the monopolies/oligopolies causing it are the true causes of this undesirable development, which regularly ends in "Caesarism", as Spengler calls it, in totalitarianism, as we say today.

In general, each form of government also appears to correspond to a particular form of economy and exploitation, as the following attempt at a scheme shows:

<table>
<tr><th>Form of Government</th><th colspan="2">Form of economy and exploitation</th></tr>
<tr><td>Tribal kingship
based on the sword nobility</td><td>Feudal Economy
based on the monopoly on land</td><td rowspan="2">Private capitalism</td></tr>
<tr><td>Democracy
based on the mass</td><td>Monetary Economy
based on the private monopoly of money and land</td></tr>
<tr><td>Caesarism
based on the army or a minority party</td><td>Totalitarianism
based on a comprehensive state economic monopoly</td><td>State capitalism</td></tr>
</table>

The development from one stage to the other may take place over a longer period of time, but under certain circumstances - such as Japan's transition from feudal to monetary economy - it may constrict over a few decades. On the other hand, it is also possible to skip the middle level of the monetary economy under certain circumstances, for example, when a totalitarian system is artificially grafted onto a semi-feudal system, as in Russia after World War I.

In the past, lack of knowledge of the interrelationships didn't allow us to find a way out of the circle of errors. The downfall in totalitarianism was therefore inevitable.

Today things are different. The task of this book is to point out the systematic connections between the economic and social disturbances and to show the way out to freedom.

2. The principle of economic justice

Old mistakes and an inalienable right

Before we go into these contexts, it is advisable to briefly touch on two questions about which, strangely enough, different opinions still exist today. The first question is: *Where does the production in the economy come from?* Who or what produces all the things that are bought and sold daily? So, who or what is to be regarded as a factor of production? The second question concerns the controversial *right to the full yield of labor.* What is meant by this? Can the full yield of labor be determined at all, and is there a prerequisite for its realization?

a) The false doctrine of the three factors of production

In contrast to natural processes, the economic process doesn't take place automatically, but requires action, an action of man. This economic activity serves the purpose of satisfying demand and uses things from the outside world as means to achieve this purpose, *which* are the object of *economic activity* and hence the economy. In contrast to this, man clearly takes the position of the *economic subject*. It is he who has created the economy, keeps it going and shapes it. He extracts the raw materials from the ground, which he processes into means of production and consumer goods. He uses the forces of nature for the purposes of the economy. Everything they use are the objects of economy. The subjects of economy are humans alone, only they are economically active because only they produce and consume. Since economic activity is an activity and since no other activity than the activity of production and consumption is recognizable or conceivable in the sphere of economy, and since only humans exercise this activity, only humans can be recognized as the subject of economy.

In sharp contradiction to these findings is the doctrine of the three production factors ***labor, land*** *and* ***capital,*** which still prevails in science today.

The basic ideas of this teaching are the following: There isn't one subject, but *three* subjects of the economy, called **factors of production**, which perform production services in the same way, side by side: labor, land and capital.

According to the ratio of production output, in free competition the big cake of the national product is distributed among the three factors of production: labor receives the wage, land receives the ground rent (interest on land), and capital receives the interest on capital.

The production activity of the factor land is based on the doctrine that without land production isn't possible at all. And the production activity of capital is derived from the fact that the success of production depends to a large extent on the kind and nature of capital.

The refutation of this teaching

The doctrine of the three factors of production can be contrasted with the following: In no other human activity has such a conclusion ever been drawn. One cannot play the violin without a violin. Who would want to conclude from this that not only the violinist but also the violin plays, that both play the violin together? Certainly nobody. The violin is a musical instrument and not a *musician, just* as the land is a means of production and not a *producer.*

As far as capital is concerned, the fact that one and the same activity achieves very different results depending on the circumstances in which it is carried out. And the means by which it is carried out has never led to the conclusion in any field of human activity that those circumstances or means perform their own services. You can get ahead faster on a paved path than over hill and dale. What would one say if someone wanted to explain, on the basis of this fact, that a distinction had to be made between the walking performance of humans and the walking performance of the way? They may claim that the true state of affairs be that: humans walk and the way goes, both together cover a greater distance in the same time than humans alone. Or man sees and the telescope sees, both together see further. No rational person will think so. One recognizes that it is humans, and always only humans, who fiddle, walk, see. No one denies that there are no musical achievements of the violin, no walking achievements of the path, no visual achievements of the telescope. It is only when producing that economists don't want to accept that which is taken for granted in all other activities, but rather awards the dead means of production - i.e. land and capital - production activity.

According to what has been said, the first basic idea of the doctrine of the three factors of production is completely mistaken. The simple truth, however, is precisely that production is an activity and that the lifeless means of production, land and capital, cannot perform any activity. Neither land nor capital can by itself produce an economic good. The unharvested, wild blackberry isn't yet an economic good. It becomes an economic good only through the human activity of gathering. Even a fully automatic machine must be turned on. The whole doctrine of the three production factors collapses.

But it is instructive to also examine the other basic ideas of the doctrine, because they are an eloquent proof of the erroneous way of thinking when political and social interests are involved.

Do landowner and capitalist contribute to production?

Clark, under the lively approval of Böhm-Bawerk and others, suggested that, according to this teaching, in addition to the working person, land and capital each also receive a piece of the cake.

As land and capital are not living creatures they have no needs, yet the purpose of all economies is the satisfaction of needs, hence, the difficulty arose to find a suitable explanation for this inconsistency.

Clark then fell for the saving way out of the "double distribution", the "functional" and "personal". So, he achieved the feat of using one and the same piece of the cake for both the land and the landowner, and both the capital and the capitalist.

But another difficulty arose. It had to be explained *why* workers, landowners and capitalists received their income. There was an effort to ***justify the land and capital interests in a social-ethical way.*** This required proof that land and capital interests are not received by the land owner and capitalist without service in return, which again presupposed that a production factor is present, which carries out this trade-off, as only a production factor can perform services (the word factor comes from facere, i.e. to do, to act). In the case of the working man, this precondition applies without further ado. He is active, he performs production services and receives the reward for it. Things are different with the *interest on land* and *capital interest*. In these cases, a factor of production, which does the trade-off, isn't evident. Thus, one declares land and capital as factors of production and claims that land owner and capitalist received the ground rent and capital interests as "remuneration" for the "provision" of their factors of production. This is the first violation of reality.

It isn't true, however, that land and capital owners, who don't carry out any activity themselves, "provide" something for production. Rather, it is true that both give only *permission* for the temporary use of their capital or land. This permission is necessary and they can have a price paid for it - the interest - because as owners they are entitled to exclude everyone else from using their property.

"Compensation" or price?

However, it is also incorrect to say that *interest on land* [1] as well as *capital interest* are "remunerations". Nor is a wage a "remuneration" *for* work, but the *price of work performance.* In the economy, people are never paid *for* a service in the same way that they thank someone *for* a favour or reward someone *for* a service. You pay because you have to, if what is to be obtained isn't for free, and *what* you pay are *prices* and not "remunerations". ***Wages, then, are the price of labour, the interest on capital is the price of the temporary lending of capital, and the ground rent is the price of the temporary lending of land.***

Since the equalization of the means of production, land and capital, with humans gave rise to doubts after all, in the reverse direction one was anxious to *depersonalize* humans, in order to bring them more easily into line with the means of production, by setting "labor" as factor of production instead of the working humans. This is once more a violation of reality, for "labor" doesn't perform productive services, but labor *is* performed by the laborer,

[1] [Translator's note: *Interest on Land* is referring to three meanings: First the lease or ground rent, payable to the landlord. Secondly, the fact that land can be of different quality (land in the center of a city vs. land on the outskirts of the city; good soil allows a better harvest than poor soil), *leading to higher revenues*, which the landowner also takes for himself, because he leases/sells the land at a higher price and thirdly the speculative profit e.g. agricultural land may be converted into building land in the future which renders the land more valuable.]

and the production capacity exists precisely in this activity.[2]

Thus, the whole doctrine of the three factors of production serves nothing other than the social-ethical justification of interest and thus the interests of the haves, and national economy, as long as it professes to this false doctrine, acts as the guardian of personal interests. This is the most serious accusation one can make against a science.

The transparent purpose of false doctrine culminates in rejecting the workers' claim to that piece of the cake that capitalists and landowners receive today. This is what *Clark* does, by declaring that one would have to speak of an exploitation of land and capital (!) if they didn't also receive "their product".

All this, however, cannot hide the simple truth that interest on capital and interest on land are obtained *without any valuable consideration* from the capital and land owners and thus represent *income without performance.*

J. M. Keynes also turns away from the doctrine of the three factors of production. He writes that he considers it more expedient to say that capital, during its existence, has a return that exceeds its original cost than to call it productive. *For the only reason why capital yields an interest is its scarcity.* He then continues: "*I am therefore inclined to the pre-classical doctrine that everything is produced by labor; aided by what was once called art and is now called technique; and by technical aids which are free, or cost a lease according to their scarcity or abundance, and by the results of past labor embodied in assets, which also determine a price according to their scarcity or abundance. It is preferable to consider work - including, of course, the personal services of the businessman and his assistants - as the only factor of production.*" It is regrettable that, despite all this, the false doctrine of the three factors of production is still being spread, because it blocks the way to important new knowledge. As long as one considers interest on capital and ground interest as a reward for an alleged production of capital and land, it’s not understandable why economists can’t admit that both types of interest - like all interest without exception - originate from *monopolies/oligopolies.* For the one excludes the other. As long as the false doctrine of the three factors of production continues to be held, the true origin of the interest on capital and land cannot be realized and the reforms aimed at an organic overcoming of the interest economy by a truly free, i.e. demonopolized, and therefore non-exploitative and social market economy cannot be put into practice - for so long will the danger of totalitarianism continue to rise.

---

[2] Translators note: This is the discussion about the difference between means of production and factor of production. Originally, the factor of production is a service by humans and the means o. p. are things (with the above-mentioned restriction on capital, which turns out <u>not</u> to be a "thing").

The classic economy had a problem with this because they wanted to proof that capital and land have a right to earn money as much as humans. But the equalization of humans with capital and land (like capital owner and land owner) “gave rise to doubts”. That’s why the perspective was changed *in order to bring humans (factor of production) more easily into line with the means of production (capital and land)*. They used the term “labour” instead of “labourer” and turned the whole thing upside down, hence making the service of work (*factor of production*) a thing like money and land (means of production) and then turned all three of them into production factors since “labour” (instead of the labourer) was now a thing <u>and</u> a factor of production and in their logic money and land would thus also be factors of production since they are also things. So, money is earned by the thing labour as much as by the thing capital and the thing land.

That made the violin a factor of production as much as the violinist. This is wrong, but is still used this way today.

b) The right to the full yield of labour

From the described fact that only the working man produces, it necessarily follows that, according to the principle of economic justice, the yield of all labor is entirely due to the working person and no one else. This first basic economic right is called the *right to the full yield of labor,* by which is meant the yield of labor not reduced by interest. The right to the full yield of labor is expressed by the sentence: *"To each according to his performance."*

The principle of economic justice, however, allows for a second interpretation in the form of the second basic economic right, the *right to exist,* which is expressed in the sentence: *"To each according to his need.*

Which of the two postulates deserves the preference?

The two fundamental rights mentioned above are based on two completely different driving forces of human nature. "Every socialist system, whose center is the right to the full yield of labor, is based on *human egoism.* On the other hand, any social system whose ultimate goal is the recognition of the right to exist must be based on the feeling of charity and brotherhood".

The answer to the question, which of the two postulates is to be given priority, must necessarily read as: That which is best suited to human nature. While human self-interest is a strong, omnipresent instinct, which is a variation of the powerful instinct of self-preservation, the *feeling* of charity appears incomparably weaker. It can by no means be regarded as general, but only as effective in individual cases and as a rule remains restricted to the circle of the family, the clan, or certain associations. If one wanted to help charity to rule, this would have to be preceded by a change in human nature. But this is impossible.

From this follows: As long as people remain as they are, only the just principle of self-interest, the right to the full yield of labor can be considered as the social ideal of a just distribution of goods, expressed in the sentence: "To each according to his performance".

In the conflict between self-interest and charity, self-interest usually prevails; the economic system that takes it into account is therefore better adapted to human nature.

What about the full yield of labor?

We differentiate between **work product, work revenue and work yield.**

Work product is defined as that which man produces in the economy;

Work revenue is the money one earns from the sale of his work product (for the person who works for remuneration, work product and work revenues are eventually the same); and the *work yield* after all is the quantity of goods which the labourer is able to buy on the market for his wage.

In the conventional interest economy, a substantial part of the earned income is withheld from the working person - about a third to a half, depending upon interest rate. If it were possible to realize the right to the full yield of labour - i.e. to solve the social question - then the wage income would not only be doubled but *multiplied*.

The number of legislators, reformers, parties and programs that have tried to solve the social question is legion. So far, they have all failed. Their efforts could not lead to the goal, as we must realize in retrospect today, because they didn't know the hidden cause of the evil to the full extent. Good will alone isn't enough here. It is only in the last few decades that the connections have been unveiled, that there is a possibility of solving the social question and that the right to the full yield of labour can be realized at all.

To realize the right to the full yield of labour doesn't mean, however, to completely exclude the exploitation of humans by other humans in each *individual* case. This is practically impossible in view of the diversity of personal assets, abilities and characteristics. It follows that the right to the full yield of labour *cannot* be secured for the individual human being according to this view. To realize the inalienable right to the full yield of labour means to deprive exploitation of the present conditions with regard to the *entirety of* the working people. In other words, *only the common full yield of labour can be realized.* **The principle of economic justice "to each according to his own performance" is fulfilled if work is the only source of income.** In Gesell's view, the full yield of labor is realized at the very moment when, with complete freedom of movement and free competition, the income without performance from the interest on capital will have fallen to zero, the future absolute and relative increase in the interest on land (ground rent) will have been made available to the general public, and the basis of differential profits will have been removed.

II. Social and economic disorders push towards totalitarianism

1. The nature of interest

Using the example of an imaginary free economy

The different types of income can, as already mentioned, be divided into two large groups. The first group includes income received on the basis of work performance; the second group includes income received *without* work performance. The income of the first type is called work income or wage (salary, yield of labour, fee, entrepreneurial salary, etc.), that of the second type is called Income without performance or *interest* (annuity, pension, capital interest, interest in goods (interest on tangible assets), preferential interest or ground interest). The entire income of the national economy, the so-called national product, is divided into wages and interest.

In order to understand the nature of interest, it is useful to look at our modern economy in its simplest and most transparent form and for this purpose to start from a simplified economy. Simplification consists in assuming, first, that competition in this economy is completely free and, second, that land and investment goods are freely available. In such an imaginary economy, each individual economic person can therefore carry out the activity best suited to his abilities and to the respective demand at his own discretion wherever and whenever, since land and tools are freely available.

A most remarkable effect of free competition will be that the price will coincide with the cost of labor. For as soon as the price exceeds the labor costs, there is a profit which attracts other workers, thus leading to an expansion of production which eliminates the profit.

As a result of the coincidence of the price with labor costs, the price is composed exclusively of wage quotas. This means *that in a free competition economy there is only one type of income, the wage. In other words, in a free economy there can be no permanent interest, **no non-labour income**.*

The reason for this phenomenon lies in the fact that in free competition as many goods can be produced from each type of goods as are desired at the price of labor costs. And this is again possible because competition is free, i.e. the access to every activity is open and the means of production are freely available.

The imagined free economy embodies at the same time the ideal type of the interest-free economy, of non-exploitation.

But free competition also realizes the principle of *economic fairness,* because it distributes the national product solely according to labour performance. Where free competition exists, economic reason and fairness prevail. Therefore, goods and services are exchanged by a hair's breadth for goods and services; every working man receives exactly the equivalent of his labor, no more and no less; it isn't possible to draw a permanent non-labour income, an interest.

Oppenheimer therefore rightly says, "*Where there is free competition, the workers turn to those branches of the economy in which, as a result of high prices, more than the average* *income is earned, and then supply increases, prices and income fall. And conversely, where there is free competition, the labor force turns away from those branches of labor in which, because of low prices, less than the average income is obtained, and then supply decreases, prices and income rise. If in a city the carpenters earn more than the joiners, then some joiners move away and the wages of those who remain behind become higher; and some carpenters move in with the result that their wages become lower. If in the whole country the lawyers earn more than the doctors, then more young people study law and less medicine, and after some time the income of the two professions is balanced again. In this way, free competition means that in the long run and on average, one day of carpentry work will replace one day of joinery work, and in the long run and on average, one hour of ordinary lawyer's work will replace one hour of ordinary doctor's work. The price of the goods or services where this balance exists is their "natural" or "fair" price.*

Equal times of equal labor have exchanged; there has been no more or less on either side; nowhere has any interest appeared; the demand of economic reason and fairness has been fulfilled.

But the same reason and fairness demands that equal periods of unequal work earn unequal income. If a particularly strong and skillful man makes twice as much in piecework pay as another who is weak and clumsy, then he earns double pay, and one hour of his working time is exchanged for two hours of the other. If a particularly skillful hunter captures a hundred ermine furs, while his clumsy comrade captures only twenty-five, he earns four times as much and one hour of his working time is exchanged for four hours of the other. If a physician is especially popular, he earns a hundred times as much as an untalented lawyer; and the lawyer, when he consults that physician, must give up the yield of a hundred hours of his working hours in exchange for one hour.

Also, in these cases every service, every good has its "natural" and "fair" price and neither a more nor a less arises in exchange. An hour of higher labor has just twice, four times, or even a hundred times the price of an hour of ordinary average labor and therefore here too, though no longer equal labor times, equal natural labor prices are exchanged. That is just and that is also reasonable and lies in the general advantage. It would be unfair if the industrious man didn't earn more than the lazy man and the talented man no more than the untalented and it would also be harmful to the general public. For then hardly anyone would be industrious any longer, and hardly anyone would still have the striving to develop his talent to the highest efficiency. And everyone would have to suffer as a result."

In this way the ill-reputed free competition causes the adjustment of the incomes through the adjustment of the prices by the work yield. And precisely this free competition also means that no permanent non-labour income, no interest, can arise.

It is useful to keep this fact in mind, even though it must be understood that there can never be a free economy in this sense. The rationale is that land will never be freely available because, as will be shown, it is a *natural* monopoly that cannot be eliminated. One will therefore have to be content with rendering the monopoly on land *harmless by* returning its yield, the land interest, to the general public in some form from which it was paid to the monopoly holders. (On the other hand, an economy in which capital is freely available - in other words, in which the interest on capital will have fallen to zero - is quite possible under certain conditions). We have proceeded from the assumption of freely available land and capital only to show that the interest rate cannot be justified in a free economy, indeed that the principle of free competition is in sharp contradiction to the claim to interest.

With the power of a symbol, these considerations made point the way out to a saving way into an economy without exploitation. We suspect that this can only ever lie in the direction of liberating the economy from all competitive obstacles, i.e. in a competition as unhindered as possible, but never in a planned economy which hinders a free and social market economy.

2. How exploitation happens

2a) The monopoly, source of interest

The situation is different if the competition isn't free, but either restricted or even excluded. We call any such lack of freedom of an economic nature a monopoly/oligopoly. Here we can clearly distinguish between two stages in the evolution of competitive bondage, which, following a suggestion by Otto Conrad, we want to call complete and incomplete monopolies.

THE COMPLETE MONOPOLY

By a complete monopoly we understand the *exclusion of the competition.* If the competition is excluded, the monopoly holder is able to obtain special monopoly prices and as a result special monopoly profits. In itself, a complete monopoly occurs relatively rarely. After all, apart from the fiscal and other legal monopolies established by law, who is without competition?

The classical economists have always understood the monopoly only in this sense, i.e. they have always meant the exclusion of competition when they spoke of a monopoly. For the rest, however, they considered competition to be free. This was a serious fallacy, which we will discuss in more detail later. In reality, the complete monopoly represents only a borderline case, namely the opposite pole of free economy. But between these two poles, free competition on the one hand and the exclusion of competition on the other, a wide area of competition restrictions stretches. These are the numerous cases in which competition is neither free nor excluded, but is limited to a more or less large circle of people. These restrictions of competition, which have been ignored by the classical doctrine, we call *incomplete monopolies* or *oligopolies.*

THE INCOMPLETE MONOPOLY [OLIGOPOLY]

The above-mentioned restrictions on competition occupy an extremely wide area in the economy. Wherever one looks, almost everywhere the incomplete monopoly [oligopoly] dominates the field and makes free competition impossible.

[Translator's note: When monopolies are referred to in the text, this expression also includes all incomplete monopolies, i.e. oligopolies.]

Of the many incomplete monopolies, the **monopoly on land** and the **monopoly on capital** - *the latter* derived from the **money-strike monopoly** - stand out in particular. Both monopolies have existed since time immemorial and continue to grow in importance. The monopoly on land is felt to be increasingly oppressive as population density increases; the monopoly on capital is developing more and more into a decisive monopoly because modern technology, by **increasingly displacing the more primitive methods of production that got by with little capital,** has made the possession of capital an indispensable prerequisite for participation in competition. **Those who don't have sufficient capital are excluded from competition.**

According to Otto Conrad, the restrictions of competition are completely similar in nature to complete monopolies, which can be seen on the one hand in their economic effects and on the other hand in their evaluation. Just as the complete monopoly leads to special monopoly prices and monopoly profits, the incomplete monopoly must also result in prices and profits that differ from those of free competition. In valuation, the equality of essence is expressed by the fact that wherever an object carries an interest, its price is calculated by the known capitalization. For example, when buying land or a factory, a railroad, etc., so much money is paid in exchange that its interest yield is the same as that of the object of purchase. Thus, two sources of interest are exchanged for each other.

The incomplete monopolies (i.e. oligopolies), especially the monopoly on land and the monopoly on capital derived from the money-strike monopoly, have generally been completely overlooked by professional economists. Even Otto Conrad recognized only the land and monopoly on capital, but not the causal money-strike monopoly as such. In general, because landowners compete with each other and capital owners compete with each other, and because freedom of contract prevailed, free competition was mistakenly thought to be a reality. One has constantly spoken of a "free economy", although such an economy has never existed before. Here lies the deeper reason for the gap between economic theory and economic practice, to which we shall return in detail later.

Besides the mentioned classification of monopolies according to their degree of completeness, I divide them according to their *origin* into natural and artificial monopolies as follows:

NATURAL MONOPOLIES

They are based on the fact that certain means of production or key local positions are inherently limited in quantity. This subheading covers land as an indispensable means of production for agriculture, forestry, mining, hydroelectric power stations, mineral springs, housing, shipping (e.g. canals, ports), etc. Land is a natural and at the same time incomplete monopoly, because competition isn't excluded, but limited to the circle of land owners. The natural monopoly of land is, however, considerably aggravated by the current land law.

ARTIFICIAL MONOPOLIES

These are subdivided into:

(a) Legal monopolies

These are monopolies created by law, such as the protection of trademarks, designs, inventions, and authors; privileges, such as the note issue privilege; concessions as a prerequisite for the exercise of a trade; fiscal monopolies, etc.; these legal monopolies are usually - insofar as they exclude competition, as in the case of the note issue privilege - to be regarded as complete monopolies, but otherwise, i.e. insofar as they merely restrict competition, as in the case of trade concessions, they are to be regarded as incomplete monopolies;

b) Agreed monopolies

like cartels, trusts, workers' coalitions, etc. In these cases, they are incomplete monopolies because they don't exclude competition, but only restrict it;

(c) De facto monopolies

These are those which are neither established by law nor by agreement, but exist de facto. By far the most important monopoly of this kind and - besides the land - the most important monopoly of all, is the **money-strike monopoly**, which was not recognized as such by the professional economists and which, as will be shown later, inevitably entails a general **monopoly of capital**. Both the money-strike monopoly and the monopoly on capital are incomplete monopolies, because competition isn't excluded, but limited to the circle of owners of money capital and capital equipment (non-cash capital). Both monopolies are *artificial* monopolies because, as will be shown later, they owe their existence to the man-made defective monetary constitution and the equally defective form of today's money.

Factual monopolies also exist where certain undertakings are designed from the outset to meet all the relevant demand (streetcars, water, gas and electricity works, post office, telephone, telegraph, etc.). As a rule, it isn't possible for a competing company to enter the market because a company of the same type would not be profitable. If such enterprises are established on the basis of a privilege that grants the owner exclusive operating rights, there is no de facto monopoly, but a legal monopoly.

2 b) The origin of interest

One of the effects of free competition, as already mentioned, is that price coincides with labor costs. As soon as the price temporarily exceeds the labor costs, there is a profit that attracts other workers, leading to an expansion of production that eliminates the profit. We have already learned the reason for this phenomenon. It lies in the fact that, in free competition, as many goods can be produced from each type of goods as are desired at the price of labor costs. And this is again possible because competition is free, i.e. access to any kind of employment is open and the means of production are freely available.

Things are fundamentally different when the competition isn't free. If the competition is limited or even excluded, then it is possible that the supply is permanently smaller than the demand, which prevails at the labor cost price. Then, as a result of the scarcity of supply, the price is *raised* above the labor costs, a tension between price and labor costs is created, and thus a profit, which isn't labor income or wage, but unearned income or *interest.* The price can be kept permanently above the labor costs and the interest can be obtained permanently because the competition isn't able to increase the supply in such a way that it coincides with the demand prevailing at the labor cost price, in other words, the competition isn't able to push the price down to the level of labor costs.

This is the principle of the origin of interest, of unearned income, which Otto Conrad formulated roughly as follows: Every interest without exception is based on a monopoly , i.e. on a restriction or even exclusion of competition. The monopoly prevents supply from expanding far enough to meet the demand prevailing at the labor cost price. The quantity of goods offered is less than the quantity of goods desired at the labor cost price, and the consequence of this is that the price can be kept permanently above the labor cost. The tension between the labor costs and the price results in a profit. This profit is the interest.

The described principle of the accrual of interest applies to all types of permanently received unearned income, regardless of whether it is interest on capital, interest in kind or ground rent (interest on land). **All types of interest are therefore completely identical in nature.**

It is clear from what has been said that the monopoly generates an interest by permanently maintaining a state of scarcity and shortage, either by nature in the form of the monopoly on land, or by one of the artificial monopolies. The economy of interest (capitalism) is therefore *monopolism* by its very nature*, i.*e. a *permanent economy of scarcity.*

In a non-free economy like the one we have today, prices consist not only of wage quotas but also of interest quotas of all kinds. Every obstruction of competition has a monopolistic effect, reduces the wage share and increases the interest share. The person who receives interest is thus pushed into the closed front of the working people, supported by the monopolies, and wrings a part of their earnings out of the hands of these working people.

The result is the fact, which is only astonishing at first glance, that exploitation has remained completely the same over the millennia. It is fundamentally the same whether in the past the slave as a work engine had to work directly for his master as a result of his personal and therefore *economic* lack of freedom; or whether in today's private capitalism the worker receives only a return on labor reduced by the interest due to the monopoly of money and land - that is, due to an unfree economy - or whether, finally, in the state capitalism preached by the Marxists, which falsely pretends to be socialism, as a result of the monopolization of almost the entire economy by the state, the principle of economic unfreedom is elevated to its highest potency, i.e., exploitation is taken to the extreme, with the forced laborer having to watch what - after satisfying the demands of the ruling bureaucracy and the hugely bloated state apparatus, which understandably takes precedence - is finally left over for him. In all three cases, the principle of exploitation has remained the same, the monopoly causes the restriction or even the exclusion of competition and thus exploitation at the same time.

Only in the *technique* of exploitation there is a difference. While slaves and forced laborers in the natural or collective economy have their wages *directly* reduced by the fact that they receive only a fraction of their labor income from the outset, which means that the owner or employer is also the exploiter, the collection of interest in the “modern” economy takes place in a different way.

2c) The charging of interest

In the money economy the charging of interest takes place - to indicate it briefly at this stage - independently of the employer. Not the entrepreneur per se is the exploiter, who squeezes the "surplus value" out of the worker by making him work a number of hours a day without compensation, as Marx and Engels still believed. We shall return to this erroneous view in the criticism of Marxism.

In reality, the collection of interest in the money economy doesn't take place in the relationship between employer and employee, but on a completely different level, namely in the relationship between *monopoly owner* and *buyer.* The process is as follows: By restricting competition, the monopoly causes a permanent shortage of supply. As a result of this shortage, the price of goods rises above the level of labor costs. A profit is generated between the labor costs and the price. **This profit is the interest that the monopoly owner is able to *charge in the price of his goods.***

These are straightforward connections. The strange thing about it is the fact *that the commodity always finds market conditions which allow the charging of interest in the price of the commodity.* Why this is so, why is the seller always able to collect the interest in the price of his goods? This will be explained in the section about the unearned income derived from monopolies.

The clearly discernible fact that it is only the existence of restrictions on competition that makes exploitation possible suggests that any truly socialist movement should be geared to striving for a state of the freest competition possible, i.e., the elimination of monopolies as far as possible, because it is only monopolies that deprive the worker of the full yield of labor and are therefore the cause of the social question. This would mean that every truly socialist movement rejects everything that is capable of restricting competition, because only the obstruction of competition causes exploitation.

Instead, however, not only some pre-marxist-socialist theories, such as those of Saint-Simon, Fourier, etc. - *only Proudhon makes a laudable* exception - but Marxism itself also moves in the direction of a restriction, even abolition, of the existing remnants of competition. With the planned state economy propagated by him, Marxism consciously strives for a general monopolization of the economy by the state, and therefore moves *fundamentally in the wrong direction.*

3. Caruso and free competition

We have seen that any restriction of competition on the commodity and capital markets represents a more or less pronounced monopoly, leading to an unearned income, an interest rate. Now the question arises: Does what has been said for the goods and capital market also apply to the *labor market?* Does any restriction of competition lead to an unearned income?

The answer to this question is generally affirmative. The already mentioned Otto Conrad's principle of the origin of interest applies without exception and therefore also to the conditions of the labor market. For example, the requirement of a trade license for the exercise of the profession of tourist guide - since in this case competition isn't excluded but limited to the circle of license holders - constitutes an incomplete monopoly which, in my classification of monopolies under group 2a, is to be classified as an artificial monopoly of a legal nature.

The situation is different, however, if Otto Conrad also counts the limitations of competition based on *human nature* among the monopolies, which consist of the fact that the talents, previous education, knowledge and abilities of people are quite different. In this context he speaks of a "talent monopoly". He argues as follows: Only those who have the corresponding qualities etc. can participate in competition. All others are excluded from competition. Since every restriction of competition results in an interest (a benefit), a special personal talent or acquired knowledge must also result in such a benefit, which he calls “interest on work”. This kind of restriction of competition in the labor market could, writes Otto Conrad, even increase to the highest level, the total monopoly. First-class singers and other artists, famous doctors and lawyers are cited by Otto Conrad as examples. Such persons, he believes, take a position quite similar to that of monopolists when determining the price of their work. They can, just like patent holders, dictate the price within certain limits. One can therefore regard only the wage of unqualified work accessible to everyone as a wage in the true sense of the word. For only in this field of work there is free competition. On the other hand, all other "wages" also contained an “interest on work” which, like any interest, is based on a restriction of competition.

This view is to be contradicted. If what Otto Conrad says is true, it would mean that the difference between the wage of an unskilled worker and that of a skilled worker or even an engineer, consists of unearned income. This can probably not be seriously claimed. There is no doubt that the higher wage of a skilled worker or engineer is matched by a higher work performance. Not in the sense that their work requires a greater effort than that of the unskilled worker. No, the sacrifice of welfare, time and comfort that every job requires may be equal in all cases. The only decisive factor is that the demand for this work performance is *greater* on the labor market, which leads to a higher valuation and payment. **The payment for a work performance isn't an interest, but a wage.**

Caruso was able to earn fantastic fees because, according to the general opinion of the audience, he was unrivalled as a tenor, virtually without competition. He owed his unique position as a singer to his equally unique vocal apparatus, which enabled him to achieve special vocal performances. He therefore drew an - albeit very high - income from work, not an interest, as Otto Conrad assumes. For no other singer was ever denied the opportunity to sing as beautifully as Caruso. It succeeded, in the opinion of the audience, only none. The consequence was that Caruso was considered the best singer of his time and was paid as such. It was the same with him, to take a very simple example, nothing more than with a particularly gifted mason who knows how to work with such extraordinary speed that he achieves exactly twice as much as other masons and therefore receives twice as much pay. The income of such a miracle mason isn't an interest but a wage, the only difference between this example and that of Caruso, is that one is paid for quantity and the other for quality. In essence it is completely the same. It is similar with an inventor, for whom an idea in a moment can make him rich. Here too it is a matter of a work performance, hence of an - albeit high - labor income. (However, insofar as the inventor's income flows from a patent, it is a legal monopoly, an interest).

In order to do justice to this question, a distinction must be made here between "external" and "internal" competitive constraints.

If someone wants to do a certain activity, there are two types of obstacles that can oppose his intention: On the one hand, there are reasons from the *outside world,* but on the other hand there are reasons that lie *within the person* himself. Suppose it is a trade that requires a concession that the person concerned cannot obtain; or the activity requires a capital endowment that he doesn't possess; or the activity infringes a patent; in all these cases the restrictions of competition are partly legal (concession, patent) and partly factual (lack of capital endowment). In all these cases, competition isn't free - for *reasons of the outside world* - but limited; *monopolies* exist.

A completely different position is taken by the *"internal"* competition restrictions in the person of the competitor. Assuming that the activity in question requires a certain talent, such as musicality for the profession of piano teacher, a good voice for that of singer, a sure hand for the surgeon, physical strength for the load carrier, freedom from vertigo for the tightrope walker, or it requires a previous education or knowledge which the applicant doesn't possess or at least not to a sufficient degree. Additionally, in this case the competition is limited without doubt. *But these "internal" competition restrictions are of a completely different kind than the external ones.* They don't result in an unearned income, no interest, but only in a relatively higher earned income as a result of the work performance that is rated higher on the labor market. Significantly, such a higher income for an activity that requires special talent or ability isn't generally perceived as unfair. It would therefore be wrong to call this a "monopoly on work" or a “interest on work".

The different gradation of the remuneration for different work performances is definitely desired. It has the effect that the relatively well-paid jobs are sought out and the poorly paid ones are avoided. In this way, competition between workers creates a balance in the level of wages. This applies not only to the remuneration of the dependent types of employment, but also between these and the *employer's wage.* The work of the business owner can also be well or poorly paid in relation to the work performed. Depending on this, the number of those who devote themselves to the entrepreneurial profession would rise or fall in the case of free competition. In this way, a correct relationship would also be established between the entrepreneur's salary and the salary for a work performed.

In summary, "internal" competition restrictions merely grade salaries, which is only right and proper, while "external" competition restrictions are monopolies that generate interest.

After what has been said, the concept of free competition can be described as follows:

Competition in a field of human activity is free if participation in the activity in question is open to everyone and is restricted if some of those who wish to participate are excluded from participation for external reasons.

4. Errors about the free-economy

It is clear from what has been said so far that we have never lived in a free economy, but quite the opposite, in an economy of the greatest possible lack of freedom. Wherever one looks, the incomplete monopoly - the restriction of competition - dominates the image of the economy. Among the most important of these incomplete monopolies, which are the very stamp of our economy, are the aforementioned monopoly on land and the monopoly of money-strikes, which entails a monopoly of capital. These monopolies have either not been recognized by professional economists at all or only partially. It was assumed that because landowners compete with each other and capital owners compete with each other, the realization of freedom of trade and freedom of contract would also bring about a free economy. This was a serious error. In reality, competition between landowners among themselves and between capital owners among themselves merely means that competition is limited to a certain group of people. For all non-land owners and non-capital owners are excluded from competition.

The proof of this isn't difficult to provide. We have found that competition is free when participation in it is open to everyone, and limited when a portion of those who wish to participate in the competition are excluded from participation for external reasons. *Now, if someone wants to participate in an activity that requires the possession of land and capital, without being able to meet these conditions, he is obviously excluded from the competition for reasons of the outside world, so the competition isn't free.*

Therefore, the landowner, the owner of capital and the simple worker, who has neither land nor capital, don't occupy the same positions in economic competition. The owner of capital can, however, acquire land and exercise the profession of a farmer, just as, conversely, the owner of land can, in exchange for the sale of his land, acquire the capital necessary for the exercise of the profession of merchant, tradesman or industrialist. The worker, on the other hand, who has neither land nor capital, is excluded from these professions.

Landowner, capitalist and worker thus occupy very different positions in competition. The former can compete with the worker, but the latter cannot compete with them. There can therefore be no talk of free competition.

It is therefore fundamentally wrong and misleading to speak of free competition in the present or past. Rather, it is true that there has never been a free economy anywhere. What is erroneously called a free economy and is partly wished back, partly blamed for grievances that have arisen, on closer inspection turns out to be a decidedly unfree economy beset by numerous monopolies.

In practice, competition was and is truly free only in the field of wage work and certain activities (errands, berry picking, etc.) carried out without capital or on freely accessible land. As a result, the general monopolization must ultimately be on the back of the wageworker, with the result that his real wage is shamefully low, much lower than would correspond to technical progress and rationalization, in some cases lower than decades, even centuries ago.

But even on the modest scale of wage work, considerable competitive constraints are already apparent today. In a country like Austria, for example, where more than three-quarters of heavy industry has been nationalized and the state, as master of transport and communications, security, education and justice - to name but a few areas - has become by far the largest employer, it has long since ceased to be performance and ability that count when filling a myriad of positions, but rather party membership and the favor of the dominant political party in the respective company. The disappearance of competition even in the sphere of wage labor is a typical manifestation of emerging totalitarianism. The distribution of jobs according to party proportional representation and party favor is the path that leads to labor camps and forced labor.

To make matters worse, both the monopoly on land and the monopoly on capital have a tendency to become increasingly oppressive. In the case of the monopoly on land, the increasingly dense population acts in this sense; in the case of the monopoly on capital, modern technology acts in this sense. The latter, with its modern method of mass production, primarily through machinery and large-scale plants, has made the requirement of capital ownership a decisive factor in the competitive process. *This, however, almost completely excluded the manual worker from the competition.* For as soon as the price of machine-produced goods falls below the cost of manual labor, the manual worker can no longer compete. Manual labor has been displaced by capitalist production.

As a further consequence of the complete misunderstanding of the character of our economy, contradictions between economic theory and practice arose. If the doctrines of economists that applied to a free competition economy were applied to a practice that was anything but a free competition economy, they could not possibly agree with experience. "For example, theory teaches," writes Otto Conrad, "that in the modern economy, supply and demand automatically adapt to each other. But this is only true when prices move freely, which is only present if the pressure of the competition can be effective. If competition is hindered in its effectiveness by all kinds of restrictions and monopolies, then automatic adjustment is impossible, and supply and demand must constantly diverge in the goods market as well as in the labor market".

Since the professional economists could not explain these contradictions between their theoretical conclusions and the results of economic practice, they lost more and more of their reputation with the practitioners of the economy, with the consequence that today one operates without theory.

While in other areas of human activity, such as medicine, chemistry, and technology, science made a decisive contribution to progress, indeed made progress possible in the first place, it lacks any influence in the field of economics. But economic science itself is to blame for this unhealthy state of affairs, for it saw in our economy an economy of free competition, as a result of which it predicted harmony and automatic adaptation, whereas in reality disharmony and irreconcilable differences existed and still exist. The loss of prestige suffered by the economists was unmistakable. "To ignore the fact that economic theory today enjoys a very low reputation and often enough encounters open disregard would be to deliberately close one's eyes to reality", writes Otto Conrad. And Keynes writes that professional economists were apparently not affected by the lack of agreement between the conclusions of their theory and the facts of experience, "a contradiction that didn't escape the notice of ordinary men, with the result that they increasingly refused to pay the economists the respect that they pay to other scholars whose theoretical conclusions are confirmed by the observations. “

The professional economists have erroneously assumed a free economy, i.e. they have considered free competition to be a reality and they have been able to spread this error more generally. An example of how comprehensively they have succeeded in this is the recurring declarations of statesmen and economic experts, who, depending on their point of view, partly demand either ‘a return to a free economy’ or conversely, a ‘turning away from the principles of the anarchic free exploitation economy’

It is also proven by the opinion of the Church, which certainly judges with great caution. It too erroneously considered free competition a reality. Thus, Pope Pius XI writes in Quadrogesimo anno, no. 88: "As little as the unity of human society can be founded on the antagonism of classes, so little can the right order of the economy be given to free competition... Freedom of competition - although within the proper limits justified and of undoubted benefit - cannot possibly be the regulative principle of the economy. Experience has confirmed this to the point of weariness after the perishable individualistic theories have been put into practice... “

Today we know that economic science has indeed been wrong. Not that their conclusions were not correct. **No, it *is absolutely correct that a free economy must lead to a permanent harmony of supply and demand, to full employment, gradual reduction of interest rates, rising real wages and economic prosperity. Only the conditions didn't exist*.** Keynes expresses this thought as follows: "If orthodox economic doctrine is on the wrong track, the fault lies not in the superstructure, which is built with great care for logical coherence, but in a lack of clarity and general validity in the *preconditions". What had been thought to be an economy of free competition had not been a free but a monopoly economy. Such an economy could understandably not fulfill the favorable effects which one rightfully could expect from a free economy!*

The perhaps grave consequences arose, however, when *politics* took hold of the existing contradiction. The evil consequences of the monopoly economy, the recurrent economic disruptions, crises, permanent unemployment, chronic underemployment, social ills, the impoverishment of the broad masses, the proletarianization of the former middle class, etc., were blamed on the non-existent free economy. One reproached and still reproaches economic science that the "free economy," praised by it and realized according to its explicit declaration, was no good, didn't keep what was promised by it and, instead of the predicted economic prosperity and harmony, led to intolerable economic and social evils. Salvation lay in a state planned economy, in a rigorous restriction, if not even abolition, of private enterprise, in a turning away from the "free" economy. Other political tendencies again point to the numerous evils of the state planned economy and call for a "return to the free economy" - which has never existed before - in short: the confusion of terms is general.

It is just as wrong to blame this so-called free economy for the abuses that have occurred as it is to want to return to it. Both are mistaken. Since there has never been a free economy, it is just as absurd to want it back as it is absurd to blame it for social and economic ills or to blame it for failing to achieve the economic ideal.

What today is known as free economy is at best a semi-free economy, a mixture of market and monopoly economy, a torso, a fragment of free economy, in one word: interest economy.

Exploitation. Capitalism.

The “free” economy failed not because the economy was (allegedly) free, - as the followers of the so-called planned economy believe - but on the contrary: It had to fail because it was ***not*** free and therefore an instrument of exploitation! Only because of this did the oh so well-known economic and social grievances become apparent.

That is why the call for a return to the traditional monopoly economy, private capitalism, is as reactionary as the call for the planned economy, state capitalism. The latter is perhaps even worse because it leads to mass enslavement and bureaucratic rule. *Both* types of capitalism are equally unnatural, i.e. not in keeping with human nature.

5. The forms of exploitation

The pursuit of an income without effort and work is deeply rooted in the human being. In the end, it is rooted in human *self-interest,* in the self-interest of man, which in turn is only one form of the natural instinct of self-preservation that dominates all living beings. Human self-interest is manifested in all fields of social life and activity, in the virtue of diligence and industriousness just as much as in the application of the economic principle, which causes humans to strive for the greatest possible success with the least effort, in the evaluation of technical improvements no less than in the appropriation of foreign labor income when taking interest or even occasionally in the glaring form of blatant robbery. It is often less a question of morality than of the associated *risk, w*hich of these tools, that differ so greatly from one another, is used by man to satisfy self-interest and gainful employment. It would be self-deception to conceal this fact, which isn't very flattering for the human race. Especially in times of upheaval, when the bonds of order and security are loosened and economic hardship is pressing, the slumbering instincts of predation sometimes stir up in astonishing ways.

In general, however, the extent of exploitation in the form of private robberies is insignificant. Robbery only becomes significant at the moment when it is *organized by the state.* The robbery of the political opponent as a means of appropriating foreign property has always played a major role in history and still plays it today both in war, i.e., interstate, and in civil war, i.e., domestic. World history in this sense has always been war history. And wars have been fought, daring expeditions have been undertaken, continents have been discovered, countries have been conquered, peoples have been subjugated and taken into slavery or driven out, unspeakable cruelties have been committed, merely for the sake of robbery, for exploitation. Even the robbery of the inferior enemy in civil war or special measures against individual sections of the population - such as Hitler's Jewish legislation -, the expulsion of millions of people from their homes, can only be understood as state-organized robbery. Looting, plundering, oppression, rape, as far as one can see, not as an end in itself, but without exception for the appropriation of foreign fruits of labor, foreign property.

If the favorable opportunity to gain unearned income presents itself, it is usually taken. Still rarely has an explorer spurned to hand out glass beads for solid gold; has a monopoly holder not used his power to his advantage.

6. From slavery to interest economy

In our considerations we have to refrain from the state organized robberies. Overcoming them will only be possible once the legal concept has achieved an international breakthrough.

We need only concern ourselves with the types of unearned income possible within the market-economy in state structures. In this context, criminal assaults such as robbery, theft and fraud - because they are usually kept in check sufficiently by the administration of justice and are therefore insignificant - are excluded from the outset; they account for hardly a fraction of a percent. Thus, we are merely concerned with examining the forms of exploitation *permitted*, whose share of the national income, as already mentioned, varies between a third and a half.

Whereas in the past it was necessary to keep slaves, i.e. personally unfree people in order to exploit them, the interest economy achieves the feat of granting people all personal and political freedoms and still exploiting them. Although the interest taker and the interest payer are (allegedly) legally completely equal and equal to each other, the one is able to appropriate the fruits of the other's labor without compensation.

This legalized exploitation is based, as has already been demonstrated, on the existence of monopolies. In the modern constitutional state, the slave owner is replaced by the interest recipient, and the slave by the interest payer. Exploitation no longer occurs directly through the appropriation of the slave's labor, but indirectly through the monopoly. It is understandable that slavery has lost interest for the exploiters at the moment when the economic unfreedom of the exploited - this is the only condition of any exploitation - was achieved by the monopolies instead of through personal deprivation of freedom.

6a) Unearned income from monopolies

First: Not everything that sails under the name interest is really interest. Usually the interest, which we call gross interest in this case, includes various cost components that have to be eliminated if one wants to arrive at pure interest.

The components of the gross interest rate

The cost components include above all the *risk premium,* which serves to cover the risk associated with the investment or money lending. In the case of money lending, the gross interest rate is also reduced by an amount which is a substitute for the *depreciation of money* caused by a possible general price increase (bull market, inflation) during the period of lending. We speak of this component of the gross interest rate as the *bull market premium.*

Example: Assuming a money credit at an annual gross interest rate of 8 percent is repaid after one year. Within this year, however, the commodity price index has risen by about 3 percent, which means that the creditor receives back money that has been devalued by about 3 percent. Assuming a one and a half percent risk premium and credit brokerage fees etc. of 1 percent, the gross interest rate in this case is as follows:

Risk premium……………………….½ percent
Bull market premium, approx.......... 3 percent
Other expenses .... 1 percent
Pure or net interest..................... 3 ½ percent
Gross interest .... 8 percent

The pure interest in this case amounts thus only 3 ½ per cent. In inflation times the loss of substance by the occurred monetary devaluation proves frequently higher than the intended bull market premium, even higher than the whole agreed upon gross interest; the creditor receives then - despite formal interest payment - not only *practically no interest* and no risk premium, but is cheated of a more or less large part of its capital substance since he receives a devalued money back. We will come back to this question later.

The cost components that don't represent interest in the case of tangible capital include the *amortization rate,* i.e. depreciation for wear and tear, which doesn't require any explanation.

Also, the business owner's *salary* has nothing to do with interest. If you deduct the cost components - to which the risk premium also belongs - from the *gross income* of an enterprise, the *net income* or entrepreneur profit (not entrepreneur's salary) remains. This net income normally contains two components. One is the business owner's salary, which is the salary for the work performed by the business owner. It also includes the *quasi-interests* that arise*, for example,* when business owners secure an extra profit for a more or less long period of time by being the first to enter the market with a cost-saving machine or by being the first to gain a foothold in new markets. The quasi-interests are to be seen as a reward for entrepreneurial skills. - The second component of net income is the pure interest. Only this is to be considered as use of capital, as earning money with money. It alone is what we have to deal with.

THE MONEY INTEREST

In order to simplify the use of language, in the following I will use the short form "capital interest" and "interest in kind" ("interest on tangible assets") instead of the somewhat long-winded terms "money capital interest" and "Interest on capital in kind" ("interest on capital for tangible assets"). These two types of interest have not been clearly distinguished by classical economic theory. It is the merit of the German-Argentinean merchant and economist Silvio Gesell to have "clearly distinguished between the interest rate and the marginal efficiency of capital", these two things which, according to Keynes, "have inextricably confused classical doctrine". What is it that Keynes calls the "marginal efficiency of capital" and Irving Fisher the "rate of return over cost"? It is the *interest in kind,* the *yield of tangible assets*, as distinct from the *interest on capital,* the *rate of interest*.

Why is interest paid for money?

The classical doctrine since Ricardo answers this question in the sense that interest is paid for money because real capital (tangible assets) yields interest and real capital can be bought with money.

The classical doctrine thus considers the interest on tangible assets as primary and the interest on money as secondary. This is wrong, as will be shown immediately.

Silvio Gesell was the first to find out that the interest rate on money is the result of *its own capital* - money. As he recognized, **money possesses a double nature: it is a medium of exchange *and a* means of treasure in one.** This is because money has a peculiar *superiority* over goods and services. The owner of money, that isn't intended for personal consumption but for investment, is able to withhold it at will without loss, because it neither spoils nor causes substantial storage and other costs of perseverance, unlike the owner of goods and wageworkers, who are compelled by the nature of their goods to offer it. Goods and services are thus under a "compulsion to offer**"**, - but capital money isn't. It is therefore - with the exception of inflation periods - at an advantage over goods and services.

The superiority of money over other assets has another side, which Keynes first pointed out in detail: money has a particularly high *"liquidity premium"* attached to it. A supply of money that can be grasped at any time obviously offers its owner a number of conveniences.

Keynes devotes an entire chapter of his "General Theory" to the psychological and business drives to liquidity. The advantage that a well-stocked safe can offer under certain circumstances - for example, when prices are stable or even falling - compared to a stock of goods, results in a "preference for liquidity", a tendency to hoarding: the medium of exchange, money, is transformed into the treasure of money (capital) in no time at all.

If the capital owner is to lend such an advantage granting money, then a special price - the interest - must be paid to him for the temporary abandonment of the liquidity. The interest on money is thus, as Keynes, who since 1936 has been transformed from a Saul to a Paul, quite aptly says, not a reward for thriftiness, but ***the price for not locking up the money***.

Gesell had put the same thought into words thirty years before: "In the originary interest (monetary interest) we pay nothing but the activity of the capitalists, which consists of putting obstacles in the way of trade".

The capital owner, supported by the superiority of conventional money over other goods, is able to hoard money with impunity and enjoy the convenience of liquidity. Since money is indispensable for the modern economy, the money owner can obtain a price in the form of interest for his temporary renouncement of the liquidity. This explanation of the money interest has a series of other, almost overturning realizations as a result.

The first of these findings is that money with such characteristics will understandably only be invested, i.e. invested in real capital (tangible assets), if it promises at least an interest rate equal to the monetary (capital) interest. If there is no prospect of a corresponding interest rate, then the investment is *omitted*, the money isn't converted into real capital (tangible assets), it *goes on strike!* That means: *The monetary interest is primary and the material interest is secondary. So, it is exactly the opposite of what has been assumed by classical theory since Ricardo.*

The second insight is that it is only the presence of a monetary interest rate that causes a barrier to the propagation of material goods. The monetary interest exercises thus a function, similarly the money extortion by road block, which was raised by the robber-knights at that time. *Only that which pays interest may happen.* Since in an economy based on the division of labor not even the smallest company can be founded without money, the interest rate must be secured before investing. Only if the interest claim promises to be satisfied, the wheels of the economy may turn.

Keynes expresses the same thought with the following words: "It seems, then, that the interest rate on money plays a peculiar role in limiting the level of employment, since it sets a standard which the *marginal efficiency of a capital value* (that is the interest on tangible assets! O.V., author) must reach if it is to be newly produced. At first sight it is very astonishing that this should be the case".

The riddle of the interest on capital, which had caused so much ink to be used over the decades, the answer to the fundamental and as yet unanswered question *"where and why the capitalist receives the interest"* had finally been solved. Gesell had discovered that interest is a purely *monetary* matter, based on the treasury character of money.

These are far-reaching outlooks that open up, questions of world importance that are answered by the new theory of interest. First of all - to mention just a few key points - there is the mystery of the *economic cycle,* the recurring economic upturns and ruinous crashes, which is being revealed. There is also the obvious consideration that if the hoardability of money is the cause of the interest on money, and the hoardability of money is the cause of the interest on tangible assets, then *by means of an appropriate monetary reform, which removes the durability (hoardability) of money, the whole capitalist system, built on interest, can be unhinged,* opening up undreamt-of possibilities. Last but not least, the new theory of interest refutes Marx's view that commodity and money are equivalents. **Marx's view is only conditionally correct with regard to the *consumption money* of the great masses, who earn only as much as they have to spend for the naked life. Here, however, money is the equivalent value of the goods, and is, like these, under "circulation compulsion"**. It is different with the capital money of him who earns more than he is prepared to spend for personal needs. In this case money is no longer the equivalent of the goods, but has a superiority to which the interest on money, due to its advantages as a means of treasure, and - as indicated - also the interest on capital in kind owe their existence. Marxism thus proceeds from erroneous premises. Its multiple other errors will be discussed later.

It would only be necessary to prove that the general principle of the accrual of interest, as we have already learned, also applies to the monetary interest, and that the monetary interest is also based on a monopoly. The following considerations arise:

Money unmistakably takes a special position in the economy based on the division of labor, because it:

1. allows the payment of smallest amounts in the most economical way. All attempts to replace money with a settlement system have failed due to this banal fact;
2. is indispensable as a medium of exchange in the modern economy;
3. cannot easily be generated by work (emission privilege);
4. because of its material nature - which allows the money owner to hoard the medium of exchange without significant perseverance costs, to transform it into treasure money in no time and thus enjoy the convenience of liquidity - has a distinct superiority over goods and services (except for inflation periods).

While the characteristics 1. and 2. have by no means a monopoly character, 3. is clearly a monopoly, namely the *emission privilege.* According to my classification, this is a complete, artificial monopoly of a legal nature. For it doesn't exist by nature, but is decided by law, and apart from the issuing institute, which is legally authorized to do so, no one is allowed to produce and put banknotes into circulation.

However, even the most determined opponent of monopolies is unlikely to object to the existence of an emissions monopoly, unless he renounces the medium of exchange, money, and thus at the same time the division of labor, in order to return to the primitive barter trade, something that probably no reasonable person would seriously want. There is no need to justify the fact that the production of banknotes cannot be left to private competition. Thus, the monopoly on emissions must undoubtedly remain in place if the monetary system as such is to remain in existence. It belongs to the indispensable monopolies. (This does of course not exclude an emissions reform!)

The characteristic of the superiority of money over other goods mentioned under 4. deserves special attention, which allows money to refuse its services as a medium of exchange at times, to “go on strike". This ability of money “to go on strike” undoubtedly restricts the competition which the owners of money capital create among themselves. But any restriction of competition constitutes a monopoly.

The ability of money to go on strike isn't easily recognizable as a monopoly in its own right - the money-strike monopoly - because this ability to strike isn't always given and above all not always to the same extent. When the level of commodity prices is stable or even falling, i.e. when the purchasing power of money is stable or rising, its superiority is unmistakable and therefore the money strike monopoly is fully effective. If, however, inflation is pursued, i.e. with rising commodity price level and consequently sinking purchasing power of money, the superiority of money over goods and services and with it the ability of money to strike gradually disappears and, if the devaluation of money exceeds five percent annually, is completely lost. The money strike monopoly is therefore only a limited monopoly. It owes its existence to the inexpedient form of today's money and its extent to the nature of the monetary policy pursued in each case.

The brilliant flash of inspiration that allowed Gesell to find the root of interest in the superiority of money over goods and services deserves admiration, even though this superiority is only present temporarily and only with varying intensity. This ***money-strike monopoly*** is, according to my classification, to be classified in the class of incomplete, artificial monopolies of a factual kind. It is incomplete because competition isn't excluded but limited to the circle of owners of money capital; it is artificial because it is inherently non-existent; and it is a de facto monopoly because it is neither legally established nor agreed upon, but simply factual.

The money-strike monopoly is the money monopoly par excellence, from which the monetary interest (as well as secondary the interest in kind) flows.

Conrad's general principle of the origin of interest can be applied to the interest on monetary capital as follows:

Like any interest rate, monetary interest is based on a monopoly, i.e. in this case on a restriction of competition. This restriction is due to the fact that conventional money has a superiority over perishable, bulky and persevering goods of all kinds (except for inflation periods) due to its material nature (its non-perishability and easy to treasure), but also because of the convenience of the liquidity it offers the money owner. The owner of capital will only lend money offering such advantages if he is offered a corresponding price - the interest rate - in addition to the obvious security. Otherwise, the money "goes on strike". Without interest - no money!

The aforementioned superiority of money over other assets has the effect that the competition that owners of money capital create among themselves on the money lending market remains permanently limited. As a result of this restriction of competition, which I call a money-strike monopoly, the supply of lending money is prevented from expanding far enough to let the pure monetary interest rate fall below the "critical limit", which is about three percent. The ability of money to strike keeps the supply of monetary capital permanently scarce, thus perpetuating the interest rate. The indispensability for the economy based on the division of labor on the one hand and the monopoly-conditioned scarcity of the lending money on the other hand cause the money interest together.

Incidentally, as Gesell demonstrates in detail, the interest rate on money has remained almost unchanged over the millennia, fluctuating between 3 and 4 percent. Gesell therefore speaks of an "iron quantity" of the original interest. According to Gesell, the fluctuations in the interest rate recorded in economic history don't affect the pure interest rate, but without exception the other components of the gross interest rate: the risk premium and the bull market premium. This view has much to offer. The pressure on the interest rate is on the one hand a limit that has been drawn and which cannot be undercut because otherwise money goes on strike due to the inherent superiority of cash money over other types of assets. On the other hand, primeval economy and barter economy, as competitors of money, are capable of countering exaggerated demands for interest. This can explain the constant size of pure interest in the course of history.

INTEREST ON TANGIBLE ASSETS

Through his insight into the nature of the monetary interest rate, Gesell has also clearly exposed the nature of the interest on material goods. As long as the level of the expected interest rate on tangible assets is higher than the level of the interest rate on money, businesspeople with a strong capital base are attracted to invest, i.e. money capital is converted into capital in kind. Each such capital in kind additionally made available to the economy has however the tendency to reduce the height of the interest generated by these tangible assets. Each such particles of capital lowers the interest rate because it increases the pressure of competition on the goods market and thus reduces the tension between labor costs and price, which is formed by the interest rate. This development, however, only leads to the point where the level of the expected interest on tangible assets has dropped to the "iron border" formed by the interest on capital.

As soon as the interest rate for tangible assets shows a tendency to fall below the limit formed by the monetary interest rate as a result of the increase in material goods, further investments are not made because the incentive for the investor is lost. Based on its superiority, the money “goes on strike", interrupts further investments and thus also the pressure of the competition on the interest rate. That the world is so poor in material goods after various millennia of working and saving must be seen as a direct consequence of the existence of interest-based money.

Only the scarcity of material goods thus causes them to yield an interest, "and they are kept scarce because of the competition for the interest rate on money," as Keynes says as briefly as aptly.

The interest-bearing property of our money is thus automatically transferred to the material goods created with its help, which are kept artificially scarce and therefore interest-bearing. *The money-strike monopoly inevitably entails the monopoly on capital.*

Money and interest rates are closely interrelated. For one thing, money doesn't allow investments that yield a return that is *lower* than the monetary interest rate - otherwise the money will go on strike. On the other hand, the interest rate for tangible assets cannot permanently be significantly higher than the interest rate for money, because, in this case, investments become profitable and thus put pressure on the interest rate in kind as immediate compensation. The interest on tangible assets is hence closely linked to the interest on money. Money is the primary capital, the monetary interest is the fixed point around which the interest on tangible assets oscillates. - Both types of interests are a function of money.

The monopoly on tangible assets, like the money-strike monopoly from which it is derived, is an incomplete, artificial and de facto monopoly, i.e. competition on the capital market for material goods isn't excluded but limited to the circle of capital owners; furthermore, the monopoly doesn't exist by nature and is neither legally established nor agreed upon but is simply given in practice. It remains to be proven that the general principle of interest also applies to the interest on tangible assets. This is done as follows: Like any interest, the interest in kind is based on a monopoly, a restriction of competition. This restriction comes about by drawing an insurmountable boundary to the formation of tangible assets - the investments - by the capital interest, whereby they are permanently kept scarce. The scarcity of tangible assets, together with their indispensability, causes the interest rate. As soon as, in the course of a longer period of economic activity, the material goods have been increased by increased investments in such a way that their yield, the interest in kind, threatens to sink below the iron border drawn by the capital interest, the money goes on strike, the investments are interrupted. For the time being, no more tangible assets are created. The inflow of new material goods ceases before all shortages of them are satisfied. However, this also puts an end to the competitive pressure on the interest rate on material goods. The process of lowering the interest rate ceases before the price has reached the level of labor costs. Since there is still a shortage of tangible assets, tension between the price of those assets and labor costs remains, and the interest rate on tangible assets is the key factor in this tension.

The above illuminates at the same time why the ventures are able to keep the price of their goods and/or the rent of their rental objects high enough to generate an interest on the invested capital for tangible assets. The monopoly that the companies who own tangible assets hold as a result of the scarcity of tangible assets - no matter whether they are producers, traders or landlords and no matter whether they work with their own or external capital - gives them the power, as producers and traders, to keep the price of their goods and, as landlords, to keep the rent for their rental objects above the level of labour costs, i.e. *to charge* the interest in kind in the price of their goods or in their rental prices.

Even competition doesn't change this, which they create for each other. A pressure on interest can only be exerted by a competitor who has capital at his disposal. Only those who have capital can exercise the trade of a producer, trader or landlord. Participation in the competition therefore presupposes the possession of capital. The non-capitalist is excluded from participation in the competition. Capital ownership is *indispensable* for participation in the competition. As a result, only the capital-owning business owners compete with each other. Outwardly they are protected from further competition by the scarcity of material goods. However, the competition that they create among themselves isn't strong enough to push the price down to the level of labor costs.

If the business works with borrowed capital, the owner is obliged to pay the capital interest or the interest in kind to the owner of the capital. The obligation to deliver the interest doesn't cause her inequity, because without the possession of the capital she wouldn’t have been able to charge the interest in kind. The material interest is thus rooted in the *scarcity of* material goods in connection with their *indispensability.* Because the material goods are indispensable, the interest *arises.* Because the material goods are kept permanently scarce by the money-strike monopoly, the interest on tangible assets *cannot be eliminated.* Indispensability alone cannot, like scarcity alone, give rise to interest. No matter how indispensable the material goods were, they wouldn't be able to bear interest permanently if they were available in unlimited quantity. Conversely, even in the case of the greatest scarcity of material goods, interest income is unthinkable if the material goods are dispensable.

THE INTEREST ON LAND

In a similar sense to money, which is non-perishable and under certain conditions cannot be multiplied at will, land also has a monopoly character, with the only difference being that the monopoly on capital is an artificial monopoly but the land is a *natural* monopoly i. For centuries, land was almost the only means of accumulating wealth and as such, as some researchers assume, it was held in such high esteem that it even hindered the proliferation of goods, similar to what the excessive preference for money does today.

The ground rent is nothing more than the price that can be obtained for the use of the land. Its origin can be best seen in the rural differential ground rent, which is formed as follows: It is well known that there is land of different usability. The more usable land requires lower costs for the production of agricultural products, while the less usable land requires higher costs. As *uniform* prices are formed on the market, the product produced on the more usable land with lower costs is also sold *at the same* price. The owner of the land saves a part of the costs compared to the least usable land, so that he or she is left with a profit that doesn't correspond to any cost. This profit is the rural differential ground rent.

The rural scarcity interest on land

The interest on land is differential interest as long as any land is still available for the cultivation purpose in question. This is usually the case almost without exception. If, on the other hand, the land available for the respective cultivation purpose is fully allocated, then competition is absolutely limited. Even on the least usable land an expansion of production isn't possible, with the consequence that this land also carries an interest. This is called a rural scarcity ground rent.

The rural scarcity ground rent is first of all the interest that the least usable land yields. However, since the price of the product obtained on the better land has also risen, the interest rate is also increased here and the interest that this land yields now breaks down into two parts. The part given by the difference in the cost of production is differential interest, the surplus is scarcity interest. In essence, there is no difference between the scarcity interest and the differential interest. The scarcity interest isn't differential interest solely because there is no more ground that is less useful than the least useful one. The rural scarcity ground rent plays almost no role. It occurs only in those rare cases where the land produces a product of a very special quality that cannot be found anywhere else (e.g. a certain type of wine).

Like any interest rate, the rural interest on land is based on a *monopoly.* Because the more usable land or land in general is limited, competition is also limited. For it can only compete with the owner of the more usable land or land at all if one owns such land. If competition was free, then production would be expanded until the price of soil products fell to the level of labor costs. Because competition is limited, this expansion doesn't take place. Fewer products are produced than are desired at the labor cost level. As a result, the price of the soil products can be kept above the labor costs and a tension between labor costs and price is created, which represents unearned income or interest.

The role of the tenant

Whether the owner of rural land cultivates his land himself or leaves it to someone else by means of a lease doesn't change the fact of the ground rent. In the latter case, the tenant charges the interest in the price of the soil products instead of the land owner. However, it doesn't remain in his hands. As in every monopoly, which isn't used by the owner himself but is left for others to use, the tenant of the monopoly on land must also deliver the yield, the interest, to the land owner. The landowner can demand the delivery, because if he had cultivated the land himself, the ground rent would have accrued to him. No inequity is caused to the lessee by the obligation to deliver the land rent, because without the possession of the land he would not have been able to collect the ground rent.

The urban differential ground rent is based on similar principles as the rural one, except that instead of the yield capacity of the land, its *location* is decisive. First the most attractive land is used. As long as land of the respective attraction is still available, the rental fee for the built rental objects remain at the level of the normal return on capital due to pressure from competitors. This changes when the land of this type is fully developed and a less usable land is now included in the development. The same rental fee is now charged for less favorably located rental properties as for the more favorably located ones. This circumstance, however, has an effect on the amount of the rent for these latter rental objects: their rent increases accordingly due to their more favorable location. They yield higher interest than the normal basic interest rate. The rental income exceeds the normal interest rate on the building capital. The surplus is the municipal differential ground rent.

According to its composition, the municipal ground rent is the land yield based on the best possible degree of utilization, the type of utilization and the location of a developed plot of land; it is equal to the achievable rent for the buildings erected on the land minus the costs attributable to the management of the building (interest on the building capital, depreciation, real estate tax, operating costs, etc.).

By its very nature, the urban differential ground rent is interest that arises as a result of the restriction of competition between rental properties. If the number of more favourably located rental properties isn't sufficient to meet the demand that exists at a certain level of rent, rents increase. They can be kept permanently above the normal return on capital, because an increase of the more favourably situated objects isn't possible due to the restriction of land.

The monopoly on capital in itself would only ensure the normal return on capital. It excludes the competition of the non-capitalists but the competition that the rental properties are creating among themselves remains. As the building capital needs a ground surface as spatial basis, which, being scarce, the already limited competition experiences further restraint. The monopoly on land is asserting itself. It has the effect that the yield of the rental objects exceeds the normal return on capital. *Here, therefore, one monopoly - the monopoly on capital - is under the protection of another monopoly, the monopoly on land.* This phenomenon can be observed frequently. If, for example, a company, which is protected from the competition of non-capital-owning entrepreneurs by its capital ownership, produces a good protected by a patent, the monopoly of capital is also under the protection of another monopoly, namely a legal monopoly.

The urban scarcity interest on land

If the expansion of a city has certain limits (e.g. in fortresses), then the urban interest on land can also appear as a scarcity interest rate. Once the land has been fully developed, competition cannot expand any further, and as a result, even the least usable land bears interest.

THE INTEREST FROM LEGAL AND AGREED MONOPOLIES

This includes trademark, design, inventor and author protection, privileges, concessions, cartels, etc. Strictly speaking, all these cases are monopolies in the form of a *privilege,* either by law or by economic supremacy. The interest that flows from these privileges is based, without exception, on the fact that, with the help of the monopolies mentioned, it is possible to keep the supply permanently scarce and thus the price above the cost of labor, which results in a profit that constitutes the interest.

In comparison to interest on capital, interest on tangible assets and interest on land (ground rent), interest from legal and agreed monopolies is of minor importance. Some of these monopolies have a secondary or *tertiary* character, such as cartels, trusts and syndicates, which will be discussed in more detail below. Others are *desirable* either for reasons of equity or expediency, such as the protection of trademarks, designs, inventors and authors or fiscal monopolies. Also, some privileges are *indispensable,* such as the right to issue banknotes, or are recommended under certain conditions, such as pharmacy licenses, etc.

The total unearned income, as far as it flows regularly, can be classified into the four types of interest: money, tangible assets, land and preferential interest. It is estimated to comprise more than nine tenths of all unearned income. The remaining tenth - or less - is the non-regularly flowing unearned income in the form of differential profits.

6b) Unearned income not derived from monopolies

This type of unearned income is generated according to different principles than interest; it doesn't flow regularly, but occurs mainly as a result of price differences. The most important sources of differential profits are *speculation on land* and *currency fluctuations. Speculation on land* leads to undeserved capital gains through the aforementioned artificial retention of land on the outskirts of cities. It made no little contribution to the inorganic development of our cities. The development of new traffic routes, as well as increasing population density, also leads to higher land prices. The second major source of differential profits is *currency fluctuations.* They can take two forms: *interstate, in the* form of exchange rate fluctuations, and *domestic, in the* form of general upward (inflation) and downward (deflation) changes in the price of goods.

As far as the former are concerned, exchange rate fluctuations occur to a greater extent only as a result of general domestic fluctuations in the price of goods (inflation, deflation), don't represent an original factor and can therefore be neglected. On the other hand, the small daily fluctuations of exchange rates in the processing of foreign payments, as they occur even when the internal price level is stable, tend to be profitably exploited by *international arbitrage* working with telegraphs and telexes, and are thus absorbed and rendered harmless. Such transactions for differences are highly desirable because they adjust exchange rates to the balance of payments with the slightest fluctuations. The same applies to *forward exchange transactions.* They enable exporters to hedge exchange rates by means of forward sales, thereby considerably reducing the risk associated with foreign business.

On the other hand, *domestic currency fluctuations* in the form of a general increase in the price of goods (inflation) and a general decline in the price of goods (deflation) deserve our special attention because they cause serious economic and social disruption. All such general commodity price fluctuations are in fact fluctuations in the value of money. We summarize them under the collective term *currency botch-up* and will come back to this in detail.

Capital, Capitalism, Capitalist

After what we have identified about the origin of unearned income in the form of interest, we can also clarify the much-disputed question of what capital is. Similar to climbing a hill, the picture that lies below us is ordered and allows us to see the connections.

What is capital?

Opinions on this have been divided so far.

"That part of a fortune from which someone expects an income is called his capital," says Adam Smith. And the capital of a country or a society according to his explanation consists of:

- Machines and tools that facilitate and shorten the work;
- buildings, not only residential buildings, but also those that serve as aids for trade and commerce, such as stores, warehouses and the like;
- Improvements to the land, making it more suitable for agriculture and cultivation;
- the acquired useful skills of all residents;
- money;
- Inventories in the hands of producers and traders whose sale is expected to generate a profit;
- Raw material or semi-finished products that are still in the hands of producers and traders;
- finished goods that are still in the hands of producers and traders.

Ricardo's definition is: "Capital is that part of a country's goods that is used for production, and it consists of food, clothing, tools, raw materials, machines, etc., that are necessary to make work possible." This explanation differs substantially from the Smiths, as it excludes many things - acquired skills, works of art, luxury items, etc. - which are included by Smith, and includes some things which Smith excludes, such as food, clothing, etc., which are in the possession of the consumer.

John Stuart Mill characterizes capital exclusively by the determination to use it. He says: "All things destined to provide productive labor with protection, assistance, tools, and material necessary for work, which feed the worker and sustain him during production, are capital. "Thus, in the question of what capital is, he allows only the *intention* of the owner of capital to decide.

Others have gone even further. Henry C. Carey explains capital as "the instrument by which man achieves dominion over nature, including the physical and spiritual forces of man himself". It is then only a step up to Röscher, who counts the state as capital, or to others who declare virtue to be capital because it promotes production, or again to others who even regard land as capital. This has caused an economist to sigh with justification because with the same right one could count our whole planet, including the sun, as capital, and call the creator of the world the all-encompassing capital.

On the whole, the inclusion of land in the concept of capital has only occurred sporadically; it is by far the exception. As a rule, a clear distinction was made between capital on the one hand and land on the other, if only because capital was usually attributed to savings, which represent accumulated human labor, so to speak. But one could not claim that land is accumulated through saving.

Böhm-Bawerk also represents this principle in his “History and critique on the theories of interest on capital” ("Geschichte und Kritik der Kapitalzinstheorien”). According to this, capital means "a complex of *produced means of acquisition,* that is, a complex of goods produced by a preceding production and intended not for immediate consumption for pleasure, but for the acquisition of further goods. Outside the concept of capital, therefore, are the objects of direct consumption on the one hand and the entire (not produced) land on the other".

In summary, it can be said that professional economists are probably not completely in agreement about *which* things are to be regarded as capital; but there is general agreement *that capital is a thing.* Karl Marx, who dedicated a multi-volume work to this "thing", is no exception.

But is capital really a thing?

After the gained insight that every interest is rooted in a monopoly, obviously not! If capital were a thing, then one would have to be able to *add up* capitals, a double amount of capital would then quite naturally have to yield the double interest yield. But as we have recognized, this is absolutely not true. Quite the opposite is true. The capital in kind according to our realization throws off an interest only because it - by today's money - is *held constantly scarce*, which causes a competition restriction and consequently an interest. *Only scarcity - in association with indispensability - is the reason for the capital characteristic of a "means of acquisition".* Two factories are not always worth twice as much as one, two tenements not always twice as much as one.

Because the more "produced means of income” (i.e. machines) are produced, the more their interest on tangible assets decreases - because of the then increased competition - the more they lose their feature as capital. With sufficient increase of production their yield may even drop to zero, and thus lose their feature as capital completely. A block of apartments, for example, which no longer yields interest on capital due to an abundance of apartments, has ceased to be capital.

In practice, however, such an abundance of capital has never been possible because today's money refuses to invest when the interest rate is falling, thus keeping tangible assets permanently scarce and interest-bearing. **Capital is therefore an "interest-bearing good"**.

By its very nature, however, capital isn't a thing, as has been believed, nothing tangible at all, but a state, and indeed a state of scarcity.

Therefore, everything which can be scarce, and as long as it is scarce, and can be used to obtain an interest, is able to take on the character of capital. From our definition of capital as a state of monopolistic scarcity, we can also derive the concept of capitalism, namely capitalism in the narrow and broader sense.

Capitalism in the narrower sense is an economic order in which the scarcity of borrowed money and consumer goods (the "produced means of income") determines the capital interest and interest on tangible assets. Capitalism in this sense is therefore to be translated as *economy of interest,* as *monopolism,* as a permanent *economy of scarcity* and *exploitation.* Capitalism in this sense is a purely monetary matter, founded in the monopoly of money-strikes.

Capitalism in the broadest sense is any economic system based on monopolies and therefore geared to exploitation from the outset, whether it allows the interest on land (ground rent) caused by the natural monopoly on land to flow into private pockets, or whether it restricts or even excludes competition and individual economic activity through artificial monopolies. It follows that the *feudalism* of the past was no less capitalist than the newly emerging *totalitarian economies,* which suppress individual competition in favor of a general state economic monopoly and thus organize exploitation by the state. "Capitalism" can therefore be translated in any case as *“monopolism”.*

Who is a capitalist?

Capitalist in general is everyone, as far as he gets interest. In a narrower sense, this is understood to mean ***the functionless investor*** whose income consists entirely or predominantly of interest (private capitalist).

In a broader sense, all the indirect beneficiaries of the monopolies also belong here, such as the influential politicians and leaders of mass organizations, especially in totalitarian states, whose position gives them an extraordinary amount of power and thus the possibility of claiming a relatively large share of the national product for themselves and their followers (state capitalists, managers).

The influence of money

A glance at history shows that all high cultural development is based on the *division of* *labor.* Only the division of labor gives humans the leisure to concern themselves also with other things but the procurement of the essentials of life. The advantage that the division of labor offers is based on the simple fact that one is able to carry out the same work the second and third time better and faster than the first time, and that this skill can be substantially increased by constant practice. Adam Smith cites as an example the individual worker who, at best, makes 20 *pins* a day when he has to do all the work himself, while ten united workers who divide themselves into the individual tasks can make 48,000 pieces, or 4,800 pieces per day and worker.

The division of labor can thus *greatly increase the productivity of work,* especially because it allows the use of labor-saving devices.

The prerequisite for the division of labor is the existence of money as a medium of exchange. Only in the monetary economy can productivity be increased through extensive division of labor in such a way that a new attitude to life and with it a new culture can develop on the breeding ground of an elevated standard of living. That is why we always find a developed monetary system at the beginning of all cultural epochs.

First, as a result of the facilitated exchange of goods with the help of banknotes, an economic upswing takes place which is remarkable compared to the primitive barter trade. The division of labor grew, trade and change flourished, population density increased, and the industrial village and town were established. Soon, however, the disadvantage becomes apparent. The superiority of hoardable money over goods and services enables the money owner to enjoy the comfort of liquidity with impunity, to earn interest on credits beyond the risk premium and bull market premium. The interest-demanding characteristic of money transfers itself to the tangible assets. Beside the ground rent, the interest on capital and on tangible assets is added, soon reaching and exceeding it in its importance as unearned income.

With interest, it seems, a new, life-hostile element is pushing itself into the course of the economy, which soon makes itself felt in economic and social disturbances.

The modern economy based on the division of labor is built entirely on the foundation of interest. The businessman, the industrialist, the tradesman, as well as the farmer and the forester, all enterprises of trade and transport count on interest, interest is paid everywhere. No house, no railroad line, no factory, no power station is built, no machine is purchased, if the interest doesn't look out of it. What promises no interest, isn't profitable, has no right to exist, isn't created from the outset. The amount of interest determines the economic success of a company just as much as whether workers are hired or fired.

Thereby the incomes from interest of big capital are much too large than that one alone or a family could consume more than a small fraction of it with decency. The accumulated incomes from interest are likewise interest-bearing; the big capital grows *automatically* by interest and compound interest into the infinite.

III. Ladder of totalitarianism

1. Unwanted unemployment

One of the most significant effects of capitalism in the narrower sense is unwanted unemployment. It can be recognized as a direct consequence of the money economy from the following consideration: in the oldest form of economy, the *economy in kind or self-economy,* the producer consumes his own product. One must not only think back to the grey prehistoric times; this economic form still plays a considerable role today. Our farmers and housewives produce about 25% of their own needs by means of self-reliance.

The *remarkable thing about self-reliance is that it doesn't know unwanted unemployment.* The farmer who grows food for himself and his family, the housewife who makes clothes for herself and her children out of available materials or prepares meals from purchased ingredients, the man who shaves himself, they all can, as long as the materials and means of production are available, not be hindered in their activities by any external circumstances, they *cannot become unemployed.* As long as their need exists, it depends entirely on their will whether they want to satisfy it or not. The phenomenon of unwanted unemployment cannot be explained from the self-economy.

In the next higher form of economy, the *barter economy,* the exchange of goods of today's cultural peoples took place over long periods of time. Whether the exchange took place step by step, such as clay pots for fish or by way of a credit, the decisive fact in exchange always remains *that the supply of one's own goods is at the same time the demand for another.* Everyone offers his own goods and at the same time asks for different goods in return. The total supply of an economy is in this case equal to the total demand. As long as total supply and total demand are equal, however, unwanted unemployment isn't possible.

In a barter economy, it can happen that a producer offers something on the market that no one wants to exchange, so that there is no buyer for his product. But he isn't unemployed for the future. He has only done futile work in the past and has eliminated himself from the market because he didn't pay attention to the demand. However, he is free to produce such goods in the future that are in demand and thus to get involved in the exchange of goods again. ***Unintentional unemployment can thus be explained neither by the nature of the exchange economy nor by the economy of self-sufficiency.***

This is different in the monetary economy. While in the direct exchange of goods for goods the supply was always equal to the demand, this changed abruptly with the introduction of money.

The splitting of the exchange by the money

Money splits the exchange into two parts: One half is the *sale of* one's own product for money, the second half is the *purchase of another's product* in exchange for this money. Only when *both* parts, sale and purchase, are fulfilled is the exchange complete; only then is the "perfect exchange" realized.

The splitting of the exchange by money now makes it possible that supply and demand no longer always have to coincide. With the introduction of money, suddenly supply is no longer at the same time demand. Rather, it is now possible for both to diverge. This case must occur completely inevitably, if some participants in the exchange *sell* their own product, without, however, purchasing a product for the proceeds obtained within a reasonable period of time. By such a behavior of the exchange partner the "perfect exchange" is prevented, it develops an *exchange disturbance* and thus unwanted unemployment, economic crisis. The "perfect exchange" requires that not only the own product is *sold,* but also the foreign product is *bought.*

It remains irrelevant for the "perfect exchange" that the seller *himself* holds demand for foreign goods with the money received. It is sufficient if he makes the money available on credit (e.g. through a financial institution) to a third party for the purchase of goods. **The decisive factor is therefore not *who* buys, but *that the goods* are bought.** For if the seller neither buys with the money received nor lends it himself, he prevents the "perfect exchange", interrupts the circulation of money, and thereby locks out workers. General hoarding of money in this sense must therefore necessarily lead to a gap between total supply and total demand and thus to unwanted unemployment. *Unwanted unemployment is therefore only conceivable in the money economy.*

How can this divergence be avoided? How do we create an economy of "perfect exchange" that knows no unwanted unemployment?

The planned economies of all shades intend to achieve this goal by more or less killing off the market economy and introducing the so-called demand-satisfying economy in its place. Instead of the buyer with the money in his hand holding demand for his own needs and tastes, some bureaucratic bodies should regulate production and consumption. Instead of the market, bureaucracy rules, instead of the driving forces of the economy, there will be the official compulsion to forcefully bring production and consumption into line.

From the point of modern economics, such drastic interventions are by no means necessary. The desirable match between total supply and total demand and hence also between production and consumption, can be achieved much more easily. It is only necessary to *deprive money of its present hoardability, i.e. to* break the monopoly on money-strikes. Such a money - constantly forced into circulation - fulfills the first demand, which one must place to an ideal money: *It rolls!* But if it rolls, then *all those* willing to work will get it. The total demand is constantly adapted to the total supply by a money that can't be hoarded and by suitable other measures, with the goal of **full employment.**

With this form of remedy, the market economy remains completely intact, indeed it is only through this that it will be able to develop all its potential. The elimination of the monopoly on money-strikes is the *first* prerequisite for freeing the market economy from its current semi-monopolistic state and transforming it in an astonishing way, even gradually impressing social traits on it and ultimately transforming it into a *social* market economy. In the course of our further investigation, we will find that the full operation of the economy in a free competitive order leads to general prosperity and secures the right to work and a maximum of economic freedom for everyone willing to work. For example, the owner of money will still be free to decide *what* and *where to* buy and also - with the help of lending - *when to* buy. He will no longer have to decide, as he does today, *whether to* buy or not. By taking away the money's ability to be hoarded, it is achieved that people will buy under all circumstances (which includes giving credits to potential buyers). Thus, the "perfect exchange", i.e. the *regular* circulation of money necessary for a full economic operation, is secured.

2. Currency crises

a) Inflation

Any general increase in the price of goods is called inflation. At the same time, it means *monetary devaluation,* because it reduces the purchasing power of money. A doubling of the price index number therefore means a halving of the purchasing power of money. Every owner of money will be expropriated half of his money. This may be bad, but it is even worse that, as already briefly mentioned, *all money claims,* all savings deposits, life insurance policies and other payment contracts are devalued to the same extent, because these credit relationships amount to a multiple of the amount of cash. The victims are the savers and other holders of monetary claims, which are diluted.

Inflation is by far the predominant type of currency botch-up, and it is incomparably more frequent than its opposite, deflation. We have already experienced one of the driving forces behind inflation in the absurdity of the permanent interest revenue. The insatiable hunger for interest, which wants to be satisfied under all circumstances, pushes unintentionally but with power for a *deterioration of money* in order to ease the interest burden. Adam Smith already emphasized that interest in kind - for example in the form of grain interest - are safer than interest on money. In his time, interest on money, which had been fixed about 200 years earlier under Queen Elizabeth, brought in only a quarter of the yield of grain interest. The purchasing power of money had thus fallen by three quarters within this period.

b) “Measured inflation”

However, as long as it doesn't exceed certain limits, slight inflation has a strong *stimulating* effect on the *economy.* We have already learned the explanation for this phenomenon; it is that when prices rise by at least five percent annually, *money cannot go on strike* but is forced onto the market. The superiority of money over other assets is lost at a monetary devaluation of about five percent annually: it can no longer fail its services and *must* maintain demand for consumer or capital goods; because if money is locked up in an inflation, it damages itself.

There has been no lack of proposals that *consciously* artificially induce such "dosed inflation" and thereby want to unleash a permanent full economic operation. From the point of view of a social market economy, such proposals must be firmly rejected, because even an annual inflation rate of only 5 % has a number of disadvantages and is tantamount to a currency decline.

c) Deflation

Any significant reduction in the average price of goods is called deflation. The effect of deflation on the economy is even more ruinous than that of inflation. A falling commodity price index means an *appreciation of money.* The money in the hands of the money-owners is getting "better" all the time; but not only that, all liabilities denominated in money are also revalued, that is, *all debts become more oppressive,* all payment contracts are distorted, to the *same extent as the index is falling.* A farmer who owns a mortgage debt worth 10 oxen must sell 20 oxen to pay off the same debt if the price drops to half. When prices fall, every business loses its stocks; business operations become mathematically impossible. When prices fall, workers are made redundant. Deflation and economic crisis are identical.

The falsification of all payment contracts often reaches the greatest extent in the course of inflation or deflation. The intimate credit interdependence of the modern economy involves billions of dollars, by which some citizens are favored or disadvantaged. The tragicomical thing about this is usually that the winners and losers are so biased by the "money illusion" (Irving Fisher) that they are not even aware of the currency botch-up as the cause of the shift in wealth. They live in the naive idea that "everything" is sometimes cheaper, sometimes "everything" more expensive, and overlook the fact that all commodity prices are in a reasonably stable relationship to each other and that in reality it is the purchasing power of money that is constantly changing.

Between the two millstones of inflation and deflation, the middle class, the medium and small business, is crushed and with it the entrepreneurial type of person, the economic pioneer, because this type, optimistic and active, usually works with credit and is therefore a particularly easy victim of currency botch-ups. The entrepreneur who tries to live up to his mission in times of deflation works, as Keynes says, with too many points against himself. "The random game he plays is marked with many zeros, so that the players will lose in *their entirety*".

What causes inflation and deflation? How do the ruinous fluctuations in the value of money occur? The answer to this is given by *the quantity theory of money.* It says that prices increase on average when the money supply is increased in relation to the quantity of goods and that the price index decreases when the money supply is decreased in relation to the quantity of goods. In this crude or naive form, however, the quantity theory cannot be maintained. For not only the money supply but also the *speed of circulation of money plays* a role. If one takes the latter into account, one arrives at the *adjusted* quantity theory, whose *price level formula* is as follows:

P = M x C (money side) / G (goods side)

that is, the **price level *P*** is equal to the *the* increased by the **velocity of circulation of money *C***, divided by the total **supply of goods *G***. Any increase in the money supply or its velocity of circulation or any decrease in the supply of goods will cause the price level to rise, the conditions otherwise remaining unchanged. Conversely, any reduction in the money supply or any decrease in the velocity of circulation of money or any increase in the range of goods on offer will cause the price index to fall, assuming all other conditions remain unchanged.

However, any general change in the price level also means a change in the purchasing power of money. By the purchasing power of money, we understand the exchange ratio of money to the average of the goods. The **purchasing power of money *PP*** is thus inversely equal to the commodity price index P according to the *purchasing power formula:*

PP = G (goods side) / M x C (money side)

That means, under otherwise constant conditions, every **in**crease of the money supply M or every acceleration of the circulation speed of money C or every **de**crease of the supply of goods G will decrease the purchasing power of money PP. Conversely, under otherwise unchanged conditions, each decrease of money supply M or each acceleration of its circulation velocity C or each increase of the supply of goods G will increase the purchasing power of money PP.

What can be done to prevent the evil currency botch-ups and achieve the desirable consolidation of the domestic price level?

Obviously, there are two basic options here: either an influence on the *goods side* G, that is, on the total supply, or on the money side M x C, that is on the total demand. There is no third option.

If one decides to intervene on the goods side, one would have to ensure that production is reduced when prices are falling and vice versa when prices are rising. Such interventions on the goods side fall under the concept of a planned economy and are not only difficult to carry out, but also require a far-reaching departure from the previous market economy system, an enormous expansion of state influence, which in its final consequence leads to totalitarianism.

In contrast, interventions on the money side lead much more easily to the goal of a fixed price level. If it is possible to raise the general price level by an increase of the money supply and to lower it by a monetary restraint, then it must also be possible to achieve the desirable fixed price level by a regulated supply with banknotes, i.e. to avoid inflation as well as deflation. However, one condition is that it succeeds to control the size C, the circulation speed of the money, likewise, this is, as will be shown, quite possible!

"Money is a birth certificate for goods," a witty mind once said. "In case of inflation, the state forges birth certificates for unborn goods. In deflation it refuses to issue birth certificates for goods already born. Deflation also means artificial birth control for goods that want to be born. “

Currency crises provoke state planned economy

Perhaps the most disastrous effect of currency botch-ups is that it provokes planned economic intervention by the state, paving the way for totalitarianism. If a state engages in currency botch-ups, it is always anxious to conceal the resulting disturbances from the outside world by means of planned economic measures. If it botches in the direction of inflation, it tries to counter the price increase it has triggered by means of official maximum prices, if not by state management and strict penalties, and to put the blame for the rising prices on producers and traders, whom it accuses of usury. If the exchange rates of foreign currencies rise as a natural consequence of the inflation that has been driven up (the rate of one's own currency falls), then he resorts to foreign exchange control, if not to a monopoly on foreign trade, in order to "cure" the "foreign currency shortage" that he himself has caused. If, on the other hand, the state botches in the direction of deflation, then it "fights" the self-inflicted emergency state of the economy by all sorts of "protection" laws. It "protects" the domestic workers who become unemployed from competition by foreign workers who are denied the extension of their residence permits; it "protects" the agricultural, commercial and industrial enterprises through tax breaks and subsidies.

One example of how currency botch-ups provoke forced economic intervention by the state is the *state-controlled housing market,* which has gradually become a European problem. When inflation set in, in almost all countries during the 1914 and 1939 wars, it was considered reasonable to exempt housing rents from the general upward trend in other prices. Besides a legal protection against dismissal, housing was also subject to a *rent freeze on the* seemingly correct grounds that the dilution of their mortgage debts caused by inflation would otherwise provide house owners with an undeserved profit, and it was preferable to allow this profit to benefit tenants in the form of lower rents. Thus, one decreed rent, to which the interest on the invested building capital belongs, though it soon no longer covered the costs of the rental business - seen from the perspective of business management (not from the economic perspective). But as always, when the price of a commodity is artificially kept below the limit of costs, a *shortage of* that commodity occurred. In this case a persistent housing shortage, which in turn necessitated the management of housing by its own authorities - the housing offices - destroyed the housing market due to a myriad of regulations, created its own bureaucracy, opened the door to protection, corruption, and discrimination, prevented the adequate construction of new housing, and thus perpetuated the housing shortage. All this misguided development would not have been conceivable without currency botch-ups.

Another example: the transformation in the pursuit of material security that can be observed in our days. While it used to be the rule that each individual tried to provide for his or her own material security through his or her own energy and thrift, this *individual* striving for security has been replaced in general by the call for *collective* security under the protective wings of the state. The collective has killed the individual striving for security. People are quite obviously renouncing individual security and the freedom that comes with it in favor of state security, which can only be the security of prison. What has happened? Have people suddenly become freedom-shy? Do they really have no other ambition than to become inmates of a state workhouse? Do they really lightheartedly renounce freedom in favor of a (supposed) security?

Not at all. Again, the solution lies with the currency. The false slogan: "security instead of freedom" was only born when the almost uninterrupted currency botch-ups eroded savings by inflation and consumed them during deflation. Because an individual striving for security has become almost hopeless in the face of constant fluctuations in the value of money, the repeatedly deceived masses in their need seek the desired material security from the state. They pay the price of their freedom (which of course only existed in the embryonic state), since they know nothing about the fact that both freedom and security can very well be combined. The thoroughly healthy striving for material security, which is misguided here due to currency botch-up, provokes state intervention.

All these interventions, however diverse they may be, have one thing in common: they increase state interference in the economy, inflate the bureaucratic apparatus, expand the monopolies even further, and thus push in the direction of totalitarianism.

d) Partial economic boom and bust regulate the economic process. The role of demand.

By no means should *partial* economic bust be considered *general* economic disruptions. They are not to be confused with *general* economic crises, the most striking feature of which, as already mentioned, is the general drop in prices.

Such partial crisis can occur in individual sectors of the economy even in the best general economic situation. If, for example, horseshoe factories have to limit their operations due to insufficient sales because the number of horses has decreased in favor of automobiles; if ribbon factories cannot sell their products because fashion neglects ribbons; if margarine factories complain about a lack of sales because the population prefers butter; if summer resorts do bad business because of a totally rainy summer; *then there is overproduction in these branches of business,* or in some services there is an oversupply. The prices crumble, the employment level decreases, a partial crisis occurs. At the same time, other branches of business can enjoy a *partial economic boom with* rising prices and increased employment.

Such partial crises and partial economic cycles don't worry the economist. It is meaningless from the point of view of a full economic operation if the increase in the number of employees in one place is offset by a decrease in another. This may well lead to partial or sectoral unemployment, but not to *general* unemployment. Partial crises and partial economic cycles, i.e. underproduction and overproduction in *individual* goods or in *individual* branches of the economy, are thus quite possible, because demand as the highest authority is *changeable* and limited in *detail.* It is easily conceivable that the demand for certain items is satisfied, that there is overproduction and partial economic bust in these items, while other goods are in increased demand. These are then microeconomic phenomena, not *macroeconomic ones*. There is an unmistakable sign for this: Individual prices fluctuate, but the *index of* commodity prices remains stable. The fact that the general level of prices isn't affected by sub-economies and partial crises clearly proves that these are *not* monetary disturbances but an automatic *self-regulating process* of the economy.

It must be clear that it is neither possible nor desirable to prevent partial economic busts and partial economic cycles. On the contrary, it is certainly desirable that technical progress, weather, fashion and atmospheric influences should change the demand, hence the request *and thereby simultaneously command production.* The partial crises and partial economic cycles caused by such events regulate the course of economic life better than any bureaucratic apparatus, no matter how great it may be, without official regulation, questionnaires and punitive sanctions.

As changeable and limited as the need for what is said may be in detail, seen as a whole it is *limitless.* If my need for brown bread, hats, light bulbs and umbrellas is covered, that doesn't mean that my need is covered *at all.* With every satisfied need, other, still unsatisfied needs emerge, countless wishes remain unfulfilled. Therefore, no expansion of production, no matter how enormous, will ever be able to satisfy the limitless human need.

For need is nothing other than the sensation of a lack in connection with the intention to remedy this lack. There will therefore be need as long as human desires are active. It follows that need is an infinite quantity, and that a general overproduction belongs in the realm of fable.

What is said becomes quite obvious if you look at the money side instead of the goods side. The never emptying purse of the fairy tale, which hardly anyone would refuse to own, is the symbol of boundless need. There is no "enough". I at least know of no millionaire who doesn't want to have millions more with the greatest pleasure. In economic life, however, need plays no immediate role. The beggar's need for a country house with a car and servants, for example, remains ineffective. The need only becomes effective when it is provided with *money* as *demand* on the sales table of the merchant. Only this demand is important.

3. The general economic crisis

As enlightened from the foregoing, there is no general overproduction. What mistakenly tends to be called overproduction is merely insufficient overall demand. The always existing demand is either insufficiently provided with money and therefore cannot become an effective demand, or its satisfaction is postponed for other reasons. The money side of the economy, the factor M x C, sometimes proves to be insufficient. *Either the quantity of money issued or the speed of circulation of money is insufficient -* often both. Neither because there is no more demand, nor because too much is produced - the average price of goods drops and a general economic crisis occurs - but because the circulation of money is insufficient. The money is held back, it goes on strike. In an economic crisis, it is similar to the situation when some of the wagons in railroad traffic are suddenly put out of service while the remaining wagons circulate at reduced speed and are therefore unable to handle the traffic volume. It is on the money side and not on the goods side, as the planned economists believe, that the cause of general economic crises lies.

When will a general economic crisis occur? How does the aforementioned insufficient circulation of money come about? There are only two possibilities: The crisis is triggered either by a shortage of money or by a restriction of circulation.

In the former case a money shortage of the issuing institution leads to a fall in prices, either by withdrawing money from circulation or by not putting the additional money supply necessary to maintain a stable price level into circulation when production is expanded. However, a falling price level is a paralyzing poison for the economy because it causes demand to withdraw in anticipation of even further dropping prices. "It *is the law of demand, that it disappears when it is insufficient"* says Gesell, and ties up with the demand: "The *prices, must never and under no circumstances drop! “.* With generally falling prices, business operations become mathematically impossible, because every merchant loses his stocks. As a result, business transactions stagnate, investments are not made and unemployment spreads. Some of the unemployed are partially excluded as consumers, which leads to further layoffs. Thus, one wedge drives the other.

In the second case, the economic crisis is triggered by an inhibition of the circulation of money, by a money-strike. We already know what causes the money-strike: it is the decreased interest rates. The money seeking investment is invested only as long as the expected return, the interest on tangible assets, exceeds the level of the capital interest rate. If the interest on tangible assets threatens to fall below this level, the money goes on strike, the price drops with consequences already described. Since this type of crisis is a recurring phenomenon, it is called a cyclical crisis, a business cycle.

a) The business cycle

A cyclical movement is a process made up of an upward and downward movement, repeated with a certain regularity, in the economic field, the mysterious alternation between economic rise and fall, between boom and bust. For decades, scholars have held all sorts of causes (even sunspots) responsible for these changes, but today the mystery of the economic cycle can be considered solved. According to Silvio Gesell and J. M. Keynes, it is above all *the way* in *which the interest on tangible assets fluctuates* that is decisive for the course of the economic cycle.

If trade and industry flourish, people work hard, save and invest during an economic period, the stock of material goods increases. New factories, residential buildings, hotels, power plants, and railroads are built, with the result that the revenue - the interest rate - gradually declines due to increased competition. The decreasing interest rate has two effects: a social and an economic one. From a social point of view, falling interest income means rising real wages in turn. A part of the unearned income (interest) is transformed into wage income. **The wage increases at the expense of the interest.**

Although this is a welcome development from a social point of view, it doesn't tend to last long, because on the other hand the dropping interest rate mobilizes those forces that will soon slow down the economic upswing. If the reduction of the interest on tangible assets reaches a certain critical limit of about 2.5 percent, the economic upswing is inevitably and automatically interrupted and the decline begins to prepare itself. The money refuses to invest, it goes on strike. A low interest on tangible assets no longer offers sufficient incentive to persuade the money owner (capitalist) to part with his precious money. The disastrous "preference for liquidity" wins. The idle money then lurks around in the banks, which register large cash liquidity. As a consequence of the incipient money-strike, it tends first to restrict operations in construction, the factories for means of production and key industries. As soon as the prices give way, even the little man participates in the "flight into money". If at first the lower interest on tangible assets restricted investment, the general price reduction does its part to prevent it altogether. Nobody will invest his money in a factory which doesn't promise to pay at least the same amount of interest as capital interest, even less so if this factory will be available next year at a much lower price.

In addition, each business, each work on stock gets into trouble with sinking prices. **He who invests when prices are falling, violates his self-interest, damages himself.**

b) Self-interest against common interest

On the other hand, the army of the unemployed is crying out for work. Therefore, the self-interest of the individual who doesn't invest because he doesn't want to harm himself stands in opposition to the interests of the general public, which is absolutely dependent on these investments. It is characteristic of *any* currency botch-up that self-interest and public interest are immediately hostile to each other. In this conflict, as we know, self-interest always wins. In this context, the question has been raised as to whether the business owner who doesn't invest in accordance with his self-interest, because he doesn't want to harm himself, is acting *immorally*, since his behavior contributes to exacerbating general unemployment. The foregoing illuminates that he *doesn't* act immorally, of course.

One cannot demand of him that he consciously harms himself in order not to be able to help others after all, because a swallow doesn't make a summer. He cannot be made responsible for the fact that either the money issuing institution suddenly runs into a shortage of money or that, due to the ability of today's money to strike, the interest on tangible assets isn't able to sink below the critical limit. All this has nothing to do with morality or bad will, but is a quite natural reaction to a purely *technical deficiency of* our monetary system. If the question of morality were to be raised, it would have to be addressed to governments, to official experts and to the management of money issuing institutions, who still have not recognized the importance of a stable level of commodity prices and who do nothing to adapt the money supply of the economy to the real requirements, i.e. to prove "morality in issuing money" (Irving Fisher).

As soon as the crisis has started, money or capital withdraws from the credit market. It becomes scarce, credits are cancelled, bankruptcies are the order of the day, unemployment spreads. Thriftiness in the wrong way of hoarding money is the trump card, with the result that money circulates *even more* slowly.

Consumers cut back on their spending, postponing purchases of dispensable items in the hope of being able to buy cheaper soon. Unsaleable goods pile up in production facilities and depots, while poorly dressed people are starving in inadequate housing. The tragicomic picture of poverty in abundance is revealed. Those who still have a job are envied. If a man and woman work, they are denounced as "double earners". In such times people growl at each other like hungry dogs.

Value-creating labor, this sole source of wealth, is paralyzed by the money-strike. Diligence, inventiveness, thrift and prosperity dig their own grave in the economic cycle, inevitably leading to unemployment, poverty and need. There is a deep tragedy in this context. The more diligent, inventive and thrifty the workers are, the sooner the interest on tangible assets falls below the profitability threshold, the sooner the money-strike and the economic crisis must occur. The fertility of the earth, the richness of nature, the blessing of labor are transformed into a curse under the traditional monetary system (and land rights). "Money creates the proletariat, not because the interest burdens deprive the people of their possessions, but *because it forcibly prevents the people from acquiring possessions"* says Gesell. It is the misfortune of the working people that under capitalism they are permanently deprived of a part of their labor income, which flows into the pockets of those who receive interest. But it is the culmination of the tragedy that they are pushed into the misery of almost permanent underemployment because the recipients of interest invest their unearned income, if not intended for consumption, only when new interest beckons.

Is the shoe too small or the foot too big?

In complete disregard of the causes of the crisis the traditional economy speaks of a general "overproduction" as a consequence of the "planless" and "chaotic" "free" economy and tries to stop the price decline by "planned economy". There is an effort to adapt production to the shrinking circulation of money, prices and wages are lowered by emergency decree (Brüning government, Germany, 1930) which thereby merely increases the value of all debts; the access to various professions is made more difficult (trade ban), thus restricting competition through official channels; there is a forced reduction in the areas under cultivation for agricultural products - D. Roosevelt shot the bird when he rewarded the *non-growing of* cotton with tax money (!); the purchase of grain is monopolized by the state for price support and then some of it is destroyed a million sheep slaughtered and buried in Australia together with the wool, wheat is burned in locomotives, coffee is rendered unusable with creosote and whole harvests sunk into the sea. **It is only the adaptation of the circulation of money to the needs of the economy that isn't attempted.**

In such times everything cries - no, roars - for a "strong hand," for a leader. This was already the case when in ancient Athens, in the course of an economic crisis, the wise Solon was appointed legislator with all the powers of a dictator, and was no different in the world economic crisis that began in 1929, when the powers of governments everywhere took on totalitarian forms. Money will be brought in for new investment and open the way for a new upswing only when unemployment has lasted long enough to scarcify material goods through population growth, natural wear and tear, etc. Then the expected (not actual) return from investments in tangible assets exceed the monetary interest rate again, either by restoring the principle of profitability through changes in the monetary interest rate or by investment in the production of war armaments.

The cycle is repeated. This means permanent mass poverty.

4. Chronic underemployment

Between the acute economic crisis (bust) and its counterpart, the economic cycle (boom), there is a transitional form that could be called chronic underemployment. Without the interest rate and the price level collapsing, as in the economic crisis, there is a considerable general unemployment.

We know the main cause. It is the hesitant circulation of money, caused by "false" saving in the form of hoarding of money and speculation, or by a distrust in the future economic development. With today's money, the desire of individuals to increase their wealth by abstaining from consumption is usually greater than the incentive to invest. Saving in the free-economic sense, "correct" saving, doesn't only mean abstinence from consumption, but also investing. The unwillingness to convert money savings into material goods, the excessive preference for liquidity, based on the current form of money, plays a disastrous role. "The low incentive to invest has always been key to the economic problem" says Keynes. A second reason for chronic underemployment is the "private planned economy", the extremely widespread cartelisation and trustification, the involvement of price-regulating organisations. They prevent the pressure of competition from taking effect, keep prices artificially high - despite underemployment - and thereby falsely pretend that the price level is stable. We will come to know them as tertiary consequences of the money-strike monopoly.

5. The social divide

While exploitation in prehistoric and early historical times was still based on the right of the strongest who prevailed over the weak and thus still had a certain naturalness, this changed fundamentally with the formation of the feudal system and corporate state and even more so under capitalism. Exploitation became more and more independent of personal characteristics and a mere side effect of the interest mechanism. The great fortunes have a tendency to grow into infinity, while at the same time the number of the dispossessed is constantly increasing. It is generally known how, especially in times of dropping prices, large estates expand at the expense of small estates. The classic example of this is the latifundia system in ancient Rome, which was suffering from deflation. In the advanced interest-based economies, therefore, one always finds large concentrations of wealth in a few hands with simultaneous oppressive mass poverty. In this respect our industrial capitalism today is no different from the capitalist periods of the preceding cultures.

The accumulation of wealth in a few hands and the splendour of the rich appears to the critical contemporaries, who don't recognize the true background of capitalism, as the cause of decay, while in reality it is the consequences of the interest-based economic system. Therefore, Plinius is mistaken if he regards only the large estates owners and Tacitus, if he considers indulgence and moral decay to be the cause of the decline of Rome; these are only concomitants of the interest economy.

While the beneficiaries of the system live a life of pleasure and opulence, the producers of this wealth, poorly fed, insufficiently clothed, populate the cramped dwellings of lightless suburbs, where the inseparable accompaniments of poverty, tuberculosis and prostitution proliferate. *At all times, wealth was coupled with mass poverty.* In Rome and Byzantium, six- to ten-story apartment buildings were erected - with a maximum street width of three meters - which often enough collapsed with their inhabitants in the absence of building regulations. A large part of the Roman citizens, for whom the call for "bread and games" formed the whole purpose of life, had only one expensive sleeping place in the ant-like teeming "insulae". "Under Vespasian the roofs (of the tenements) at the Capitol had already reached the height of the mountain saddle. A horrible misery, a wildness of all living habits, which already bred a new prehistoric man between gables and attics, in cellars and backyards, lived in each of these magnificent mass cities. That was no different in Baghdad and Babylon than in Tenochtitlan and today in London and Berlin," says Spengler.

6. Fictitious political rights

The plight of the broad masses leads to strong internal political tensions. *The state is civil war prevented by force.* In an effort to ease these tensions, the masses are granted political rights; gradually the democratic form of government is being established. Workers live in the belief that their political equality will lead to economic equality. However, the expected improvement doesn't occur, and indeed cannot occur at all. What one hopes to achieve through universal suffrage and parliamentarianism is the *economic* goal of full labor income. But this goal, as we know, presupposes *economic freedom*, that is, free competition, the destruction or rendering harmless of monopolies. But these monopolies have in many cases not been recognized as such. How can the situation of the working people improve under such circumstances?

As the market economy cannot function properly due to the existing monopolies, economic and social disruptions must constantly occur. Instead of getting to the root of the problem and disarming the monopolies, people are happy to cure themselves off the phenomena. It is decided to intervene in the economy in ever new and deeper ways, which soon gives special advantages to this group or to the other. To the negotiation of these countless laws of planned economy, parliamentary horse-trading is added, the haggling of the political parties for the advantages that each of them seeks to obtain for "their" voters. Thus, under the rule of the monopolies the healthy idea of democracy degenerates into a parliamentary haggling for group advantages. Parliament becomes a law factory, from which inexorably a flood of paragraphs pours out over the helpless people in whose name parliamentarians rule. The monopolies and the planned economy they have set up kill democracy. This should not be surprising. Democracy presupposes freedom and equal rights; but neither of these can exist in the traditional monopoly economy.

From the planned-economy interventions, initially considered minor and harmless, the total state is gradually growing by necessity. Under such circumstances, political rights become pseudo rights, and Parliament becomes a distorted image that is soon no longer taken seriously. As soon as one realizes that the parliamentary system cannot deliver what was promised, interest in it is lost. In ancient Greece not only the representatives of the people were paid for their work, but every single citizen who attended these meetings! In Rome it was no different. Spengler writes: "Streams of blood had... reddened the pavement of all the world's cities in order to turn the great truths of democracy into reality and to fight for rights without which life didn't seem worth living. Now these rights *are* conquered, but the grandchildren cannot be moved to make use of them even by punishment... Already at the time of Caesar the decent population hardly participated in the elections. In his speech for Sestius, Cicero points out that in the plebiscites there were five people from each tribe, who in reality belong to another tribe. But these five were only there to be bought by those in power. And barely fifty years before, the Italic people had fallen in masses for this very right to vote. It embittered the life of the great Tiberius that the most capable men of his time held back from all politics, and Nero could no longer, even by threats, force the knights to come to Rome to exercise their rights".

7. Imperialism

Wars have always offered a welcome opportunity to release inner tensions to the outside. The occasions for this will soon be found. The path of imperialism isn't taken out of excess strength, but out of weakness, out of embarrassment. Imperialism is always a sign of decay. "Since 146, Rome has been engaged in the transformation of the eastern masses of the country into provinces only because there was no other remedy against anarchy," writes Spengler. The people themselves - and this is probably to be regarded as a general phenomenon - are completely disinterested in the warlike events: "I see symbols of first rank in the fact that in Rome, where the triumvir Crassus was the omnipotent building speculator, the Roman people, who were emblazoned on all inscriptions, before which the Gauls, Greeks, Parthians and Syrians trembled in the distance, lived in immense misery in multi-story tenements of lightless suburbs and took up the successes of military expansion with indifference or a kind of sporting interest. “

The motives for imperialist wars in the past were hardly substantially different from those of today. The relentless pressure of almost permanent underemployment, coupled with the need to pay for the import of vital goods in precious metals not found in their own country, led to economic and social difficulties. Experience has shown that these difficulties are immediately and considerably alleviated by inflationary influences. In the past, every foray brought a fertilizing stream of much longed-for precious metal to the homeland, but nowadays, states only exceptionally procure gold directly through war and looting. As a rule, one chooses the way via an active balance of payments. This, however, presupposes a constant and tenacious *struggle for the sales markets*, which the more powerful a state is internationally, the more easily it provokes imperialist ideologies and such wars. Germany succumbed to these ideologies twice within one lifetime. The role of the gold currency was highly disastrous. Keynes argues that *international trade today is nothing more than a desperate means of maintaining domestic employment through forced sales abroad while restricting imports. The whole effort, he says, amounts to exporting one's own unemployment, to* transferring it abroad. He writes literally that today "the authorities have no other orthodox means at their disposal to fight domestic unemployment than to struggle for an export surplus and, after importing the money metal, to do so at the expense of their neighbors. Never in history has a method been devised that would have more effectively set the advantage of each country against the advantage of its neighbor than the international gold (or formerly silver) standard. For it makes domestic prosperity directly dependent on the vying hunt for markets and the vying appetite for precious metals".

You force your own goods on your neighbor and on the other hand, if possible, you don't buy anything from him. One deliberately throws him into embarrassment, because this is the only way to avoid the constant pressure of underemployment at home. The result is a tendency toward autarky, which leads to the mutual strangulation of the states and thus to a new edition of the mercantile system of the seventh century, whose slogan, as is well known, was: "It is better to pay two thalers for a commodity which remains in the country than one which goes out".

These efforts of strangling neighboring counties contrast strangely with technological progress, which has not only shrunk distances, but also requires that every country can obtain the raw materials and resources *of the whole world.* This contrast also carries with it imperialist tendencies, for no economy can do without the goods of the rest of the world.

"With about 150 states in the world, it isn't possible for each state to have its own coal mines, ore mines, oil fields, copper mines, and the like, as well as its own wheat farms, coffee plantations, cotton plantations, etc., according to its size and variable headcount. It is in this simple fact that imperialism can never lead to a world order that would not be exposed to new shocks in the near future. “

The fact that every war requires dictatorial state intervention that silences social antagonisms for the moment, thereby feigning a lack of unanimity that facilitates governance, is conducive to war. Moreover, armaments of war immediately relieve the pressure of underemployment. Suddenly all wheels turn, every hand is needed. Full employment, otherwise a barely attainable dream, becomes a fact and makes it easier for the workers to get over the reduction of their real wages, which is the rule in war. And finally, the main thing: war armaments are *pure consumption*, i.e. *they don't put pressure on the interest rate,* as investments tend to do, which, as a result of the increase in material goods, lead to increased competition and to a reduction of the interest rate for tangible assets, thus triggering a money-strike and a declining economy. **War armaments don't reduce the interest on tangible assets** (because these “machines” are short lived and have to be replaced immediately).

So, there is a fundamental difference between investing peacefully and consuming warlike, between building factories and homes, and building tanks and shells, because the latter don't touch the interest! If the simple man in the street regrets that vast sums of money are spent on armaments for war, for which, in his opinion, more useful things could be procured, such as houses, he is in error with this in itself healthy view - he has not grasped the essence of the economy of interest, which requires a permanent state of shortage in order to function at all. In the interest economy it is just - as absurd as it may seem - possible to produce cannons, tanks and bomber planes in unlimited quantities, but not houses, factories and other material goods.

To a simplified formula:

It is the iron law of the economy of interest that it constantly throws a sea of goods on the market for which there can be no outlet, because the man who created them is cheated of half his wages and therefore can buy only half of these goods. The other half of the national product seeks only new capital investments which are profitable. If there is a lack of such investment opportunities, the money-strike monopoly steps into its rights and locks out the working people. Here there is no other way out but destruction and war, if one disregards the stopgap of metered inflation.

Every war destroys huge quantities of material goods with the result that profitable investment opportunities are available in abundance for years to come. The more material goods are destroyed, the better the remaining ones are profitable. In addition, the increase in money with each war regularly leads to inflation. It means devaluation of money and at the same time a huge debt relief, in which the state as the biggest debtor profits the most.

Doesn't this show a truly eerie picture? Because people are not allowed to work as much as they would like, they have to slaughter each other. As their blood runs, the previously stagnant circulation of money begins to move. The more human lives and material assets are destroyed, the better the economy pays off, the more job opportunities open up. The more tears, the higher the interest. The greater the fraudulent depreciation of money, the easier the debt burden. This is the world we live in. Does it have to be like that? Does it have to stay that way?

8. The so-called planned economy

Planning belongs to each economy from the outset, it is its indispensable condition. The business owners invest and produce only after a mature planning, the farmer plans the cultivation of his fields, the division of his field work, every house is built not only according to the plan of the master builder, but after careful consideration of costs and profitability, and even the simplest form of economy, the domestic consumer economy, cannot do without a plan. So why a planned economy when there is no economy without a plan?

If one gets to the bottom of the matter, one finds that the buzzword planned economy is nothing more than a euphemism for a system of both private and state intervention in the goods side of the economy. Significantly, all these interventions have one thing in common: they all aim to restrict or even exclude competition, i.e. they have a monopolistic (oligopolistic) effect. Because the term, planned economy, is misleading and inappropriate, it has been suggested that it is better to speak of an ordered, designed, tamed (domesticated) or meaningful economy. But all these designations don't satisfy, because the previous economy was neither wild nor senseless, and the planned economy interventions don't at all mean an order and design, but often enough arbitrariness and an exploitation of consumers organized either privately or by the state. It might therefore be more appropriate to speak of a tied economy. It is true that this expression isn't entirely satisfactory either, because it suggests that the previous economy was unbound, i.e. an economy of free competition, which, as is well known, never applied because of the permanent monopoly on money and land. If, then, we choose the term bound economy, it is in the sense that economic freedom is restricted by other additional ties besides the two main monopolies of money and land already mentioned.

We distinguish between a *state* or forced planned economy and a *private* or voluntary planned economy. It is contrasted by the conventional market economy, which is criticized for producing chaotically and haphazardly and therefore leads again and again to overproduction crises, which is hoped to be prevented by introducing a constrained economy.

How do things really behave?

It must be admitted that today's market economy by no means always satisfies. The attentive reader already knows why. With today's hoardable money and the almost uninterrupted currency botch-ups, demand is often either excessive or insufficient. The desirable "perfect exchange" is often enough not realized, resulting in a gap between total supply and total demand, in apparent overproduction, sales stagnation and unemployment. The market economy is now held responsible for this. We already know that this isn't a fundamental mistake of the market economy, but a mistake of the monetary system!

This deficiency of the monetary system is wrongly blamed on the market economy, declaring it obsolete and propagating the tied economy as a way out. In order to recognize that this way out is no way out, one need only consider who is at the wheel of one or the other form of economy. In the market economy, the *consumer* is the highest authority that decides what is to be produced by keeping demand for it. "Our customer - our master" is what producers and merchants say and they read every wish from the eyes of the consumer. Since every single person is at the same time also a consumer, *every single person* also decides what is to be produced. **The market economy is therefore the most democratic institution conceivable. With the money as a ballot card in their hands, the consumers of the whole country vote at every hour on what they want to be produced.** In contrast, at the helm of the tied economy is an army of bureaucrats who decide what is to be produced and what isn't. In the sections "Errors of Marxism" and "The State as Entrepreneur" the peculiarities of this type of economy are shown.

Here it should only be pointed out that there has always been a more or less "planned economy". First of all, as far as state intervention in the economy is concerned, there is no period of time in the past in which it cannot be proven. As a rule, such interventions take place in times of need, especially during war, and are then justified. The tied economy is the given form of the war economy because it enables the aggregation of all economic forces of a state system.

In addition to the needs of war, as history teaches us, it is the *social* needs that push with power towards the tied economy. It always repeats the same thing. One tries to alleviate the social disturbances that arise in the wake of the interest economy through state intervention (grain distribution, bread stamps, food ration cards, etc.).

How far, for example, the state planned economy in ancient Rome went is shown by the "Ediktum de pretiis" issued by Diocletian in 301, which established a well-thought-out system of maximum prices for over a thousand different goods and services, the violation of which was punishable by the most severe penalties, even death. Remarkable is also the striving for nationalization. Apart from the metal trades (armourers), it was above all the textile manufactures (silk and linen factories, dyeing works, etc.) that fell victim to nationalization and contributed to the extermination of the middle class and the death of ancient Rome from the cancer of bureaucracy.

Numerous scandals have repeatedly revealed and continue to reveal that the planned state economy offers inexhaustible opportunities for corruption. Not infrequently, it is the business owners themselves who, through currency botch-ups and crises, find themselves in need and call on the state for help. **In order to create healthy conditions, this help would have to consist of preventing future currency botch-ups and breaking the money-strike monopoly that caused the crisis.** Then one could speak of real help. But what does "help" consist of in practice? In new, strengthened ties that never get to the heart of the matter and are also highly double-edged. Whether it is new protective tariffs, export bonuses, a ban on the establishment of new production plants, or forced syndicates, it is always only a *seeming help* that the state is able to offer.

In addition to the state planned economy, the *private,* voluntarily planned economy is also emerging. Especially the large scale manufacturer doesn't like competition. He has become accustomed to seeing his company primarily as a source of interest, which bubbles up most productively when there is no competition. To eliminate the competition, the large company prefers to enter into *voluntary commitments.* In doing so, no savings are made with justifications that make such measures appear to be in the common interest. The aim is to reach "market-regulating" agreements, whether by dividing up sales areas, fixing prices or restricting production. All this has a *restrictive* effect on *competition,* i.e. it secures interest and is monopolistic [oligopolistic], whether cartels, groups, syndicates or mutual shareholdings are involved. Such voluntary ties favour the *accumulation of capital on a* large scale and the *bureaucratisation of the administration*, as is generally observed in large companies today.

Frequently, those voluntary commitments (i.e. cartels) are justified by reference to the rationalization they allow. As far as this is really true, the momentum of rationalization recedes far behind the described pursuit of interest.

In the course of the misguided development of the interest economy into a monopolistic mammoth enterprise, a structural change is also taking place unnoticed in the class of economic leaders: **The real entrepreneur, the daring innovator, the pioneer with a dash of conqueror blood in his veins is being displaced.** Such creative natures are inherently optimistic and sooner or later they are likely to become the victims of commitments whose meaning has been distorted by treacherous currency botch-ups. They play, as already briefly mentioned, a random game with too many zeros against them, so that the entirety of the players must lose. **The entrepreneur is increasingly being replaced by the banker type, the financier, who has an aversion to risk and prefers to calculate in cautious but deadly safe percentages.** He merges, nests, issues and arranges investments and is more interested in the profits flowing from them than in production as such. A factory shut down by a cartel decision often brings in more than an ongoing one.

As a result of the countless state and private economic ties, an immense amount of paralyzing stiffening remains, which hinders the market mechanics in their function. Supply and demand lose their regulating effect as soon as the pressure of competition can no longer be effective due to the existing ties. If, however, supply and demand diverge, new interventions are soon required. If the state first intervenes in one of the four areas of the economy: production, transport, distribution and consumption, it is soon forced to intervene in the other areas as well. For example, if the state sets a lower price than the market price in the area of distribution, production will fall and consumption will rise. The state will therefore have to extend its coercive measures to the field of production in the sense of increasing it and to the field of consumption in the sense of reducing it, for example by means of a card system. One ***planned economy causes the other planned economy***. There is no such thing as a "little planned economy" any more than a "little pregnant".

After what has been said, it becomes clear that from the market economy, which is distorted by a few monopolies and *therefore* not truly free, with its constant disturbances, a straight path leads to the tied economy, which achieves its final goal in the 100 % state economic monopoly, in the total state forced economy. In totalitarianism, the working people, from the business owner to the last unskilled worker, have no say at all. **The economy, like the whole world, has then become the prey of power-hungry and rapacious "leaders".** They and their followers are able to claim a disproportionately large part of the national product for themselves because of the comprehensive state economic monopoly they exercise - much more than the private interest earners did before.

Totalitarianism completely removes the meaning of the social question; it doesn't solve it - it erases it. Its hallmark is the forced laborer directed by the bureaucrat, the state slave.

Doesn't it seem symbolic that the representatives of fading private capitalism meet with the spokesmen of threatening state capitalism on a common level - the private or state planned economy? Doesn’t this look like a changing of the guard?

IV. Errors of Marxism

The fundamental error of Marx, which led him astray from the path of socialism and onto the inclined plane of communism, is to seek the cause of exploitation in the *private ownership of the means of production.* In logical continuation of this thought he then arrives at his well-known proposal to eliminate this private ownership, to socialize the means of production, which of course amounts only to ***nationalization****.* If, like Marx, one assumes that private ownership of the means of production causes the interest, then one must, however, hope for the elimination of private ownership also to eliminate the interest, which he calls "surplus value”.

For Marx the overcoming of capitalism is therefore merely a question of expropriation.

Marx succumbs to the visual impression and considers capital to be a ***thing*** in complete agreement with classical national economy*.* Whoever happens to own this thing is, according to Marx, capable of exploiting others. For him the business owner, because he usually owns the means of production, is, without further ado, *the* exploiter.

This view of Marx must be countered by what has already been said in earlier sections about the origins of interest. It isn't because the factory, the apartment building, the transport company is in private hands that the owner is able to earn interest, but because there are *too few* of these material goods, *because they are scarce.* So, **scarcity causes the interest**. And this scarcity, as we have recognized, is perpetuated by the form of today's money, which refuses to invest when the interest on tangible assets has fallen; which *can* refuse to invest because it is capable of striking. The private ownership of the means of production or acquisition alone is by no means sufficient to earn interest. It is easily conceivable that, for example, as a result of an oversupply of rented housing, the rent may drop to the labour cost point, i.e. in such a case the landlords must decide - in order to avoid a loss-making vacancy - to charge a rent which only includes the equivalent value for the amortisation and other costs, but not interest. Despite the unrestricted private ownership of the rental properties, interest doesn't always have to be paid. (The fact that in such a case it can only be a temporary exception, because in case of lacking or insufficient interest the investments are immediately interrupted, is another matter).

If Marx's view that the elimination of private ownership in the means of production and other material goods must automatically entail socialism were correct, then socialism should have long since become a reality in the "people's democratic" states, where private property has been rigorously eliminated from the very beginning. But, as is well known, this has not been the case.

The development there shows not the slightest inclination to lead to exploitation-free and therefore classless social order, to a dismantling of the state. Despite the loud assurances of the local rulers, there can be no talk of socialism. On the contrary, **the fusion of state and economy brought about by nationalization has left the broad masses of the population defenselessly exposed to unscrupulous exploitation by an upper class of state capitalists**, who make no less use of their position of power than private capitalists and feudal lords did before. It could not be otherwise. Since, as we know, the cause of exploitation isn't private ownership of the means of production, the nationalization of private property, carried out according to Marx's recipe, logically cannot change the least thing about exploitation; it only transforms private capitalism into state capitalism.

Marx and his followers are also fundamentally mistaken about *charging interest. According to* Marx, the collection of interest is carried out on the production side, in that the business owner, who is *the* exploiter in Marx's view, obtains the interest (the "surplus value") by exploiting the worker directly. Marx is of the opinion that the business owner reduces the worker's wage by the interest. Quite vividly this thought is expressed by Engels, who writes as follows:

"The worker sells his labor to the capitalist for a certain daily sum. After working a few hours, he has reproduced the value of that sum. But his contract of labor is that he must now advance another series of hours to make his working day full. The value he now produces in these extra hours is the surplus value, which costs the capitalists nothing, but still goes into his pocket. "

As we have already shown, this view is erroneous. The interest isn't raised by appropriating unpaid labor, as Marx and Engels believed, but by the monopoly holder being able to keep the price of his goods above the level of labor costs, and thus to raise the interest in the price of his products (or, in the case of the lending business, in the rent).

It isn't in the relationship between entrepreneur and worker, not on the production side, but in the relationship between monopoly owner and buyer or borrower, on the money side, that interest is charged. From this it also follows that the entrepreneur isn't, as Marx assumes, the exploiter par excellence. A business owner who produces with borrowed capital on leased land may be able to charge interest, but must pay it to the owners of capital and land. (If, on the other hand, the entrepreneur is at the same time a capitalist, then his income consists of a mixture of business owners wage and interest).

If Marx's starting points are thus fundamentally wrong, his further conclusions are no less so. Since private ownership of the means of production isn't the cause of exploitation, nationalization cannot, understandably, eliminate exploitation. In the place of the private capitalist, who after all is bound by the principle of economic efficiency, the state, to which this binding no longer applies, takes over. This doesn't change the principle of monopolistic exploitation.

1. Wrong strike slogans

The Marxist strike slogans also prove to be incorrect. For since capital isn't a thing, but a state of scarcity, anything that is likely to exacerbate the state of capital scarcity - like any war for example, because it destroys material goods, but also like any strike that stops the production of material goods. The saying:

"All wheels stand still when your strong arm wants it"

lures the workers on a wrong track. Not only does the strike not harm capitalism, but it directs its tip against the workers themselves, because it contributes to keeping material goods scarce and therefore bearing interest. **Strike can at best increase the real wage of a particular group of workers, always at the expense of the rest of the working people,**

but never at the expense of interest. Strike successes of this kind are always only illusory successes, because they cannot harm the interest. **If interest were seriously touched, then inevitably there would be <u>an investment strike of money, which is far more effective than the strike of the workers</u>!**

It is therefore in the interest of the workers that there is no strike, but that work is carried out as continuously as possible. Only in this way is it possible to create that abundance of material goods which is necessary to push down the interest and finally to eliminate it completely. According to Gesell, interest should sink in a sea of capital. Standstill wheels are merely an obstacle on the way to this goal. Therefore, instead of Marx's strike slogan, it must be rightly called:

"All wheels must run, shall capital drown. "

Although what has been said so far has revealed the untenability of Marxist doctrine, it may be worthwhile to take a look at the consequences of nationalization as it would practically correspond to that doctrine.

A market economy is the interlocking of numerous interdependent individual economies, each of which generally produces only one commodity or a few goods, but consumes a large number of goods. For the functioning of the many individual economies, it is essential that each individual unit has all the necessary raw materials and supplies at the right time, that each worker has the right tools, and that traffic and exchange are handled smoothly. The entire economic process depends on innumerable influences, such as the whim of nature, the abilities, demands, moods and opinions of the economic people, but not least on the existence of created tangible assets, the "produced means of income", which facilitate production. All these numerous and constantly changing influences are regulated and balanced automatically in the *market economy* by the action of the inexorable law of supply and demand in competition.

On the market, prices for everything and anything are constantly being formed at every hour, from pins to locomotives, from the wages of unskilled workers to the salary of the chief executive and last but not least, the (gross) interest as the price for the temporary transfer of capital and the rent as the price for the temporary allocation of land. All these prices are at the same time the commanders for the *most economical use of* all resources and labor, including capital and land. They automatically decide on rewards and punishments for the economic operators, by imposing rewards to those who know how to satisfy demand faster and better and losses to those whose services satisfy less.

We have come to know human *self-interest* as the engine that keeps this whole complicated transmission of market economy going. The activity of the individual self-interest has its limit in the self-interest of others, with the consequence that the forces acting on each other cancel and neutralize each other, thus creating a state of equilibrium which is synonymous with the *common good.* **Selfishness and common good are in harmony.**

The powerful driving force of self-interest is, however, only in harmony with the common good under a certain condition, namely, only when competition is truly free, that is, when the individual competitors are not able to create a one-sided economic predominance for themselves, as the monopoly offers. **Only in a monopoly-free [oligopoly-free] economy competition is truly free, is lasting harmony possible, and self-interest and common good are identical.**

However, in the previous economy, competition has never been free. There are the two main monopolies, capital and land, already mentioned, and the secondary monopolies derived from them. The result is permanent social and economic disruption. Is it not self-evident to eliminate these evils by eliminating their causes, the monopolies and thus creating a social order of ideal perfection? Instead, Marx, in ignorance of the true context, intends to throw the whole, naturally grown system of the market economy overboard - just because it is distorted and disturbed today by the monopolies. He pours the baby out with the bath. The market economy with its forces that ultimately work according to natural law and its automatic regulation - apart from the capitalist disturbances - is comparable to a cosmos in miniature. It symbolizes *life* in the way it has grown from primitive beginnings to ever greater delicacy and sensitivity. And Marxism wants to replace this pulsating life with the rigid forms of its planned economy. One doesn't replace life with something else. Life is followed only by death. Death in the form of state-capitalist slavery.

Incidentally, the healthy basic idea of the market economy is illuminated by the mere fact that wherever it has been officially suppressed in planned economy experiments or under state capitalism, it immediately celebrates a resurrection in the form of the black market.

2. The state as entrepreneur?

Does the state really possess the entrepreneurial qualities that the Marxists blindly believe it possesses and which it needs to run the economy successfully?

By its very nature the State cannot appear other than through its organs, that is, its officials. These officials, for all the good will they are granted, are only men. As such they must by nature be selfish, i.e. they will avoid in their actions and omissions, out of innate self-interest, anything that might harm them. Experience shows, however, that a civil servant protects his interests best when he follows his regulations as closely as possible and makes as few independent decisions as possible, which could easily be interpreted as arbitrary acts or even as "sabotage". Therefore, in order to avoid inconveniences, he will adhere strictly to his regulations, will not take any independent action and will avoid all rapid decisions, as the private business owner has to make every day.

This kind of more or less purely schematic work according to decreed regulations is called *bureaucracy.* This term doesn't in itself mean a value judgement. Bureaucracy is one of the possible forms - and for the state even the only possible form - of administration. The bureaucracy looks back on a high age. Around 3000 BC, Ancient Egypt was already a finely organized bureaucratic state with highly complicated regulations, some of which have been preserved to us on papyrus rolls. The Roman Empire was also largely bureaucratized by a planned economy in the centuries of its downfall. Without bureaucracy, a planned economy is generally inconceivable. **The more one eliminates the natural forces of the economy - competition and the law of supply and demand - the more civil servants must naturally be involved.** Even large-scale industry, which is already largely monopolized today, already shows clear bureaucratic traits.

There is no need to point out that no company can be managed competitively with bureaucratic administrative skills. If this were possible, there would be no problem of nationalization, because then the state *itself* could set up companies instead of expropriating existing ones in order to compete with the private sector. But it isn't able to do that. **Every time the state tried to compete with private entrepreneurs on an equal footing, it failed miserably.** In order to be able to do business at all, it needs a monopoly, if possible even a *complete* monopoly, the exclusion of competition.

But nationalization of production alone isn't enough. Rather, such a measure would result in a complete overthrow of the economy. The monopolization of production by the state leads to the abolition of the market principle. This in turn means that it is no longer the consumer who determines what is to be produced, but the state official, based on some statistical investigation. Here we shall not go into the factual difficulties of this undertaking in more detail. It should only be pointed out that the commanding of production by the state bureaucracy must inevitably lead to bureaucratic regulation in the other economic areas as well, with the order being turned upside down. In the state planned economy, what consumers want is no longer produced as in the market economy; instead, what has been produced must be consumed. The human personality is increasingly being eliminated in every respect in favor of a totalitarian system which degrades humans from economic subject to economic object.

The strong drive for self-interest understandably remains the determining factor for people even in a nationalized economy. State capitalism will also make use of this drive, but only in a highly deficient manner, for example in the form of a bonus system or the distribution of titles and orders. ***Because* state capitalism cannot do without the exploitation of its citizens *because* it is its element of life, it must be content to offer them a surrogate in the form of honors that cost nothing instead of the full income of labor.** Not to be forgotten is the *negative* application of forces slumbering in self-interest, for example when economic errors - which in the market economy automatically take revenge through the failures they cause - is prosecuted in totalitarianism as criminal or even state crimes. An incompetent manager is dismissed in the market economy and this is also his punishment; in totalitarianism he is put on trial as a high traitor and saboteur, often in a show trial. The Criminal Code replaces the Commercial Code, the executioner replaces the bailiff.

Since for the state the momentum of economic efficiency, to which the private entrepreneur is bound for better or worse, ceases to be a regulating principle, the state is all too easily inclined to multiply its army of civil servants, which naturally reduces the yield of productive labor. For as the army of bureaucrats and overseers swells, the number of productive workers must melt down. Bureaucracy soon overgrows everything. Instead of one capitalist in private capitalism, one hundred bureaucrats in state capitalism, who flood the economy like locusts, are replacing them with the result that less of the national product goes to the individual creator than before. The result is that the real wage in state capitalism is much lower than in private capitalism. **The state, by its very nature, isn't capable of economic success. There is no worse economist, no greater waster of economic values than the state.** It is and remains a mechanical thing. Hence the expression state apparatus. Even the best machine cannot replace private initiative. The generally known inefficiency of state enterprises, which must necessarily be potentiated under state capitalism, remains in any case a serious objection to this system.

It doesn't help the working people if the private beneficiaries of their work are replaced by an army of bureaucrats. In economic terms, state capitalism doesn't lead out of exploitation. The more influence and rights the state has, the more duties the subject has. The more power the state has, the more is the individual deprived of civil rights. The totalitarian state may well be able to realize the second principle of economic justice: the right to exist. It may provide security instead of freedom. But the security it offers is the security behind prison bars.

The only "advantage" for the working man in state capitalism is that here - as in any barracks - the problem of unemployment doesn't exist. But there is the opposite phenomenon, *forced labor.* But both unemployment and forced labor are equally evil. **Forced labor belongs to totalitarianism like thunder belongs to lightning.** *There is no other way.* Where the motor of self-interest is frowned upon and therefore the inner drive is missing, external force must be used to keep the economy going.

In an economic system of the kind outlined above, where the economic freedom of the individual has been sacrificed to the general state economic monopoly, all other freedoms must also be unimaginably restricted. On the other hand, however, there is no doubt that Marxism has found numerous followers in the course of time, not only unsuspecting and therefore enthusiastic followers, but also people who, despairing of another way out of the economic misery of interest, strive in their fear and hopelessness for state totality. This is an almost incomprehensible phenomenon, **since the instinct for freedom, whose systematic suppression Marxism inevitably brings about, is a strong and natural instinct.** It is incomprehensible that there are people who voluntarily want to go to prison.

This puzzling phenomenon can only be interpreted in such a way that the extensive deprivation of freedom that is inevitably associated with state capitalism seems to weigh less on many people than the disadvantages of today's private capitalism. They prefer an unfree, miserable but - as they believe - relatively secure life in the shadow of the great idol, the state, to their previous life in private capitalism. Security is more important to them than freedom - at least of the semi-freedom offered by private capitalism. That speaks volumes. Humans do not so easily throw away their freedom, even if it is incomplete, in exchange for a prison. So how terrible must many people feel about the present economic system, how much of a hell must it seem to them if they prefer to live in a barracks state? "Communism is death! " says Proudhon, "Better death than hell! "cries the choir of the unswerving Marxists.

A more scathing verdict on the private-capitalist system can hardly be spoken.

V. How to solve the social question

The necessary reforms

We have realized that it was the social question that has always pushed towards totalitarianism in the past and is pushing again today. It is the one that leads to class formation and social tensions on the one hand and to economic disruption on the other, which increasingly requires state intervention. All these interventions are aimed at further restricting competition.

The final causes of this aberration are certain technical shortcomings of our economic system, embodied in the two primary monopolies of money and land. *Because* competition is restricted by them, it must be restricted *even more* by state coercion. **If these monopolies can be eliminated or rendered harmless, then the social question will be solved and the already begun descent into totalitarianism will not only be halted, but the gate will be pushed open which leads to freedom and to an undreamt-of rise.**

The elimination of the monopolies of money and land doesn't require a revolution. There is no need for bloodshed, in contrast to the useless attempts of the past; there is no need for the mass slaughter of the rich or the expulsion of some of the citizens from their homes; nor is there any expropriation of property. **All that is needed is the implementation of a few inconspicuous reforms in order to put self-interest on a par with the common good in the future.**

For these reforms to be successful, it is by no means necessary to make people "better" beforehand than they are today, to re-educate them, to reshape their inner being; in particular, it isn't necessary to make the attempt, which is always doomed to failure, to "wean" them from self-interest, to encourage them, contrary to their innermost nature, to selflessness. No, in order to make the proposed reforms a success, it isn't necessary to remodel the people, as the various churches have tried to do for centuries in vain. For after all, despite all innate self-interest, human beings are *social* beings who are bound to the community by the permanent bond of their own interests, even with regard to the indispensability of the division of labor. **This bond by natural self-interest is quite sufficient; there is no need for reinforcement by special legal compulsion, no proclamation of new "duties," no spiritual uniformity.**

In order for our reforms to succeed, people cannot but *must* remain in their innermost being as they already are today, that is, primarily *selfish.* That is the only condition that is being imposed. And they certainly fulfill this condition to a sufficient degree. In the future they will only have to obey their self-interest in order to turn everything to their best advantage in the economic field and to realize the hitherto unattained goal of "fair distribution of goods according to performance" and thus economic and social harmony.

It is to Silvio Gesell's credit that he recognized it was not economic freedom causing the failure, but, on the contrary, the *curtailment* of this freedom by monopolies not recognized as such.

Seen in this way, it isn't the superstructure of classical economics, which has been built with great care for logical coherence, that is incorrect, but, as Keynes says, only some of the tacit *presuppositions* on which it rests. If the existing gaps of the foundation are filled and thus the classical construction is put on a perfect base, then also its conclusions will no longer be in contradiction to reality but will harmonize with it. Keynes, too, expressly affirms this view when he writes: "I thus agree with Gesell that the result of filling in the gaps in classical theory isn't to abandon the Manchester system, but to determine *the kind of environment* that the free play of forces requires if it is to realize the full possibilities of production".

The kind of environment in which the free play of forces reaches the maximum of its efficiency can only be a *social market economy freed from monopolies*. In order to overcome capitalism, in other words, to solve the social question, the following reforms in the sense of a social market economy are therefore necessary:

1. A currency reform

Instead of the previous, almost uninterrupted currency botch-ups, which sometimes harm all debtors, sometimes all creditors and thereby, among other undesirable consequences, grossly violate the principle of economic justice, a **fixed currency** based on the index principle will be introduced.

2. The overcoming of monopolies

In accordance with the realization that it isn't private ownership of the means of production, but the existence of monopolies that is the cause of economic disruption and exploitation, monopolies, insofar as they are destructible and dispensable, must be destroyed. This includes above all the *monopoly of money-strikes,* which, as we already know, inevitably entails a general *monopoly of capital* in the form of a permanent shortage of capital. **The destruction of the money-strike monopoly will lead to an increased accumulation of tangible capital and will gradually transform the present shortage of capital into an abundance of capital.**

Not affected by the destruction are the *indispensable* monopolies, such as the note-issuing privilege, trademark, design, inventor and author protection, which must remain in place (which of course doesn't exclude a reform of the currently inappropriate way of issuing notes, patent law, etc.).

As far as the natural and therefore indestructible monopoly on land is concerned, its yield, the interest on land, is to be made available to the general public by means of **a land reform with full compensation for the previous monopoly holders**.

1. The currency reform

a) The Index Currency

A *stabilization of the purchasing power of money* is desirable for economic reasons alone, because it puts an end to inflation and deflation. It is most expedient to do so in relation to the average of commodity prices, expressed in the **commodity price index**. Only such an index currency deserves the name of a currency, because with it the purchasing power of money no longer fluctuates constantly, but really *lasts,* with the result that in ten or twenty years one will be able to buy on average the same quantity of goods for one monetary unit as today.

With an index currency, the prices of the *individual* goods may and should fluctuate at will due to changes in supply and demand, because this automatically regulates the economy better than by planned economic intervention. In order to indicate it here briefly: If the price of a commodity rises, for instance because production is insufficient in relation to demand, then one speaks of a ***partial economic cycle*** *(partial economic boost)*. It has two effects: on the one hand, the increased price, because it promises a special profit, induces producers to expand production; on the other hand, the increased price induces consumers to limit consumption. However, both, increased production and reduced consumption counteract the price increase and soon compensate for it. Conversely, the dropping price of a commodity usually causes producers to restrict production that has become less profitable and consumers to consume more of the cheaper commodity. However, both consequences of the ***partial economic crisis***, restricted production and increased consumption, counteract a further drop in prices and in the direction of producing a normal price, where supply and demand are in balance. **Thus, partial *economies (boom)* and *partial crises* constantly and automatically regulate production and consumption, supply and demand, much better than a bureaucratic apparatus can.**

The only important thing is that the average commodity price, the index, is kept stable. Or expressed in a picture: If the task is to keep the water level of a reservoir unchanged, this doesn't mean that every single wave movement should be made impossible. The only important thing is that the water level (the index of commodity prices) is kept stable and thus flooding (inflation) is avoided as well as ebb (deflation), while the waves (the individual commodity prices) can play their game unhindered.

From the movement of the index number one can read off like a compass whether the money supply of the economy is right or wrong. The money supply is correct if the index number remains unchanged within moderate limits. If, on the other hand, the index rises, then this is proof that there is too much money in circulation or that it is circulating too fast; if it drops, then there is too little money in circulation or it is circulating only hesitantly.

The role of credit

What role does *credit (credit) in the* form of non-cash payment transactions play in the practical manipulation of an index currency? As is well known, it is based on the fact that today every manufacturer, tradesman and even the private individual maintains short-term deposits at financial institutions, which are transferred from one account to another, thereby making payments with final effect without moving cash. From a purely visual point of view, these balances do indeed appear to have the character of money, since they can undoubtedly be used to make payments. People therefore believe to be able to speak of "book money", "credit money", "deposit money", "bank money", etc., as well as of a "creation" of such money by the banks, which, by granting or terminating credits, are supposedly able to increase or destroy "book money" within certain limits. Is this true?

Let's assume that a country moves to the index currency according to our proposals. It commissions its own currency office as an issuing institution to keep the price level stable. Can this task be solved if, in addition to the money issued by the Monetary Office (the cash), there are various types of "book money" that can be increased or decreased by third parties in an uncontrolled manner and at will?

What is money actually?

You can get quite different answers to this question. Money is all that "applies" says one. "A check is just as good money as the banknotes are. Beyond that also bills of exchange, bank and coop bank balances, money orders and book transfers... also mortgages, bonds, mortgage bonds, debentures, securities... “

Here, as one can see, all conceivable types of credit, i.e. of credit balance debt relationships, are entirely declared “money". The concept of money is thus interpreted as extensively as possible. I wonder if the author of this rubber version might have ever tried to buy a suit with a mortgage?

Money and credit are two different things

Silvio Gesell's school of free-economy has generally interpreted the concept of money very *narrowly.* According to this view, money is only what the state protects as a money symbol, be it coins or bank notes. This concept of money is therefore completely identical with the legal concept. In a *broader* sense, however, money isn't just any money sign, not a coin or note, not a claim or a credit relationship, but a *function:* namely M x C.

It is therefore incorrect to describe credit relationships - i.e. credit balances on the one hand and debts on the other - as money. Here the optical impression is deceptive. Credit balances and debts - even if they are of a short-term nature and regularly exercise a monetary function - are not money at all. To call them that way is wrong. There is no "book money". The equation of money and credit is based on an error. Credit is merely a *promise to pay* - usually in money - but not "money", just as a promise to deliver a hat isn't a hat. If credit were money, there would be no frozen claims, and if banks could really "create" money, there would be no insolvent banks. Credit balances on deposit accounts are just *deposit balances* and not deposit money.

The book money people have overlooked two things: First, that credit isn't secondary to cash, but *subordinate* to it. The entire credit building is nothing more than a huge promise of payment. This whole credit building is built on the foundation of cash and inevitably collapses if even a small part of this foundation is taken away from it. **Therefore, it is also linguistically incorrect to speak of a cashless payment system, which has not existed since the days of the exchange economy. It seems much more appropriate to call it a *non-cash* payment transaction. *Cash*** *transactions and non-cash transactions always grow or shrink in approximately the same proportion!*

Now, if the different types of credit are not separate types of money to be added to the amount of cash, what role does credit play?

The answer is: **the credit is to be classified under the dimension *C*; *it increases the circulation speed of money.*** However, one should not only imagine the speed of the physical transfer of the money from hand to hand under this circulation speed. As Dr. Christen has already proved in detail, all credit measures - including drawing account transactions - are velocity of circulation of money, incorporeal circulation of money. In the same proportion as the money is passed on from hand to hand (physical circulation of money), the credit traffic as incorporeal circulation of money takes place in the proportion prescribed by the trading characteristics. In other words:

As the velocity of money increases and decreases, credit increases and decreases. That is why, as Dr. Christen quite rightly says, **for the economic calculation credit and the velocity of circulation of money are identical**. This view isn't new, by the way. Already Cantillon, a forerunner of the Physiocrats, in 1756, calls the ratio of cash money to *all* payments, whether they are made with coins, by mutual offsetting or by the use of banknotes: velocity of circulation of cash money. He ascribes the greatest influence on the velocity of circulation to *trust*, for the greater the trust, the more the money can be replaced by clearing and thus the fictitious velocity of circulation of money is created.

Gesell has said of the credit transactions that they are comparable to a channel that is drawn alongside the cash money for the exchange of goods. "If A in Königsberg [today St. Petersburg] sends a load of butter to B in Aachen [Germany] and the latter pays the bill with a load of wine, not a penny of money is involved. If B had no credit with A, and A had none with B, the butter would be given out only against delivery of money, and so would wine". So, it is the credit that is obtained by transfer from account to account, by bills of exchange, cheques, offsetting, etc. It is the credit that performs the function of money, increasing the velocity of circulation of money. Just as no one will call the goods, such as butter or wine, when they are credited and charged, "money" because they can replace money, so it is just as wrong to call the credit resulting from the giving of money "money" for the same reason as it is often the case today.

It depends on the point of view of the observer what credit is in each individual case. *Legally,* credit is a debt-credit relationship, *psychologically* it is trust, on the *balance sheet* assets or liabilities, in the *commercial* meaning credit is capital. In the *economic calculation,* however, credit is always the velocity of circulation of money.

As far as the so-called money creation by the banks is concerned, it must be admitted that the banks are an important and powerful control center of the economy. But not by "creating" money, sometimes "destroying" it, but by being inclined - sometimes by credit expansion, sometimes by credit restriction - to exaggerate the respective economic tendency. Since credit is "velocity of circulation of money" and the banks determine the amount of credit to a certain extent, they understandably exert a considerable influence on the circulation of money. This is no big deal. The only disadvantage today is the considerable *fluctuations,* i.e. the exaggeration of the trend. As we know, however, the causes of these fluctuations lie in the traditional form of money issuance and of money; they can be eliminated only by the reforms we propose, and in no case by any paternalism of the banks or other planned-economy measures.

There can be no doubt about the practical feasibility of the Index currency under such circumstances. If, as experience has shown, it is possible to increase the price level by increasing the amount of money and vice versa, to decrease the price level by decreasing the amount of money, then it must also be possible to stabilize the average of commodity prices and thus the purchasing power of money by a precisely balanced supply of cash/money to the economy - provided that there are means to destroy the money-strike monopoly, which will be discussed in more detail.

The mere announcement of the decision to manipulate an index currency in the future will help to stabilize the price level of a country. Up to now, it has always been the case that whenever an upward price trend was noticeable, this was the *very reason why* demand started to increase for psychological reasons. Everyone was anxious to buy quickly before everything became even more expensive. *Because the prices had risen, they rose even more.* Conversely, any tendency for prices to crumble had the effect of making buyers even more determined to wait for lower prices. *Because prices had dropped, they dropped even more.* The price pendulum swung *more strongly* in both directions. The proposed reform changes this situation. Even the news of the introduction of the index currency alone will provide reassurance here, because everyone will know that in future any general bull market or bear market is out of the question.

It has been argued against an index currency that, depending on the selection of goods on which it is based and the way it is calculated - wholesale index, cost of living index, etc. - it would produce different results. This objection is irrelevant. Irving Fisher spent many years of costly research on the subject and presented the results in the book "The Calculation of Index Numbers" published in 1922. He came to the following opinions:

"First, that almost any reasonable index number, wholesale, retail, or general (Snyders) is better than none at all, and that in any kind of stabilization all index numbers differ less from each other than is commonly imagined and much less than now as none of them is fixed; second, that the Swedish choice - namely, a retail cost of living index - is the best of the practically available because it means the same thing to almost everyone, since all people consume similar goods (while producing unlike ones)”.

b) Management of the Index Currency

The right to issue banknotes, the banknote privilege, which, it is recalled, is one of the indispensable monopolies, is currently in the hands of private banks, so-called national banks. Money is issued to a considerable extent by *lending money in the* form of the bills of exchange rediscount: the major banks submit bills of exchange to the National Bank and receive money in return. When the bills fall due, they pay back the money and submit new bills as required. This amalgamation of money issuance and lending proves to be inappropriate for maintaining an index currency, as it **allows private parties an undue influence on the amount of money in circulation.** The financial institutions having a business relationship with the National Bank can at any time increase the amount of money in circulation by submitting bills of exchange, or by depositing money into or withdrawing money from current accounts, thereby changing the amount of money in circulation.

The following example may show, which dimensions such a movement may take: In anticipation of the so-called Currency Protection Law in Austria, 562 million shillings were deposited with the Austrian National Bank in the week from 16 to 23 November 1947, and in the following week until 30 November a further 685 million shillings, in all almost one and a quarter billion shillings. Within the two weeks mentioned, the free deposits at the National Bank increased by this enormous amount, while at the same time the circulation of banknotes decreased from a little over 6 billion Schilling to 4.8 billion Schilling. Private individuals were thus able to reduce the country's money circulation by over 20 percent within a very short time!

Or think of the crisis-ridden 1930s, when the national banks were able to shrug their shoulders with regret when accused of pursuing a policy of money scarcity, declaring that *"the economy itself"* apparently had no confidence in future developments and restricted the amount of money in circulation by not taking out credits.

Turning away from credit-based issuing policy

In order to make such evils impossible in the future, our reform proposals envisage a turning away from credit-based issuing policy. The privilege of issuing banknotes is transferred to a ***National Monetary Authority*** that *doesn't* conduct any *banking business*, but serves solely to keep the index of commodity prices stable. For the reasons given by Fisher, the most suitable index should be the cost-of-living index (excluding rents).

If it turns out to be necessary to increase money spending because the price level shows a tendency to drop, the National Monetary Authority hands new money to the minister of finance, who in return makes a corresponding reduction in taxes. Conversely, if the amount of money in circulation is to be reduced, a surcharge on the taxes is levied and the corresponding amount is paid by the ministry of finance to the National Monetary Authority. In addition, it is also possible to increase the amount of money in circulation by extending the tax payment dates, or vice versa by bringing forward the payment dates.

The administration of an index currency is therefore a rather simple matter - always provided that the money issued by the Monetary Office cannot be shrouded by private individuals, but is actually circulating. This question will be discussed in more detail in the following sections.

c) The exchange rate of the index currency

In domestic business the *price* means the *exchange ratio of a commodity to money.* In foreign business, the *exchange rate is* the *ratio of one currency unit to another,* i.e. the dollar to the franc.

So, whether a foreign good is expensive or cheap for a local importer (apart from freight and customs) depends on a *double ratio*: firstly, its price in the foreign currency and secondly, the exchange rate of this foreign currency to the domestic currency.

For gold currency, this exchange rate is *manipulated* by the gold shipments. We have learned about the disadvantages of this system. In the case of foreign exchange control, the exchange rates are decreed and *manipulated* by forced management as well. The disadvantages were briefly outlined above. With the index currency recommended by us the purchasing power of the money is manipulated in the inland, the exchange rate is left to the free play of supply and demand. Just as the price of a commodity is formed in the commodity market by supply and demand, in this case the exchange rate is formed by supply and demand in the international currency markets, the stock exchanges.

The supply of and demand for foreign exchange in a given country depends on its *balance of payments,* i.e. the total payments that this country has to make and receive from abroad, whether for the movement of goods, services, tourism or capital. Thus, the balance of payments of a country is again no more than a *ratio*, namely the ratio of total incoming payments to total outgoing payments.

How are the exchange rates formed in detail?

If a country has more to receive than to pay, that is, if its balance of payments is *active,* its foreign exchange will be *sought after*, its exchange rate will *rise in* relation to foreign currencies. But the rising exchange rate has a double effect: it automatically makes the goods of this country more expensive for the foreign buyer, with the result that this country can now export less than before; at the same time, however, the rising exchange rate favors imports from abroad because it makes foreign goods cheaper. However, both the reduced export and the increased import mean that this country's foreign currency is now less sought after than before, which leads to a *balance of payments adjustment* and thus to a stabilization of the exchange rate.

The reverse is true if a country's balance of payments is passive, i.e. if it has more to pay abroad than it receives from there. The foreign exchange of that country will then be abundantly offered by the stock exchanges and therefore *drop in* price. But a dropping exchange rate makes the goods of this country cheaper for the foreign buyer, while at the same time making imports more expensive. The result will be an increase in exports and a decrease in imports, with the result that the foreign currency of this country will be more sought-after than before, which will also lead to the desired ***balance of payments*** and thus to a stabilization of exchange rates. For when the balance of payments is balanced, the exchange rates are fixed; in a sense they reach a "normal level".

In both cases, *arbitrage* and *futures transactions* ensure in a desirable way that exchange rate fluctuations are kept within the narrowest conceivable limits.

From what has been said, it is clear that any imbalance in the balance of payments already contains the forces that lead to an equilibrium - provided that the free play of forces is allowed. In this case, the exchange rates immediately return to their usual point of equilibrium.

A prerequisite for the described oscillation of the exchange rate around a certain point is, however, that the countries in question pursue a *policy of fixed prices* in the sense of an index currency. If, on the other hand, a country bungles its currency in the direction of falling prices (deflation), i.e. if the purchasing power of its currency unit, measured against the domestic price level, rises for whatever reason, for instance in the course of an economic crisis, then the crisis country becomes "cheap" for foreign countries and, as a consequence, the exchange rate of the crisis country rises against a fixed-currency country.

Conversely, if a country is bungled in the direction of *rising* prices (*inflation*), and this country erodes the domestic purchasing power of its currency unit, then this unit understandably becomes less "valuable" for other countries and its exchange rate drops in relation to a fixed currency country. In both cases, the changes in the exchange rate are nothing more than the **expression of the currency botch-ups** being carried out, as a result of which the exchange rate must be brought in at a new level.

d) The effect of the currency reform

If the quantity of money spent according to the suggested index principle is regulated in such a way that it adapts itself as far as possible to the needs of the economy - which is expressed evenly in a stable index figure - then thereby one of the sources of the unearned income (*interest*) dries up at the same time, as far as it is a return from *speculative transactions* of this kind!

The economic gains resulting from the alternating disadvantages of creditors and debtors will be over for good.

Finally, the index currency also tries to put the axe to the root of the *interest on tangible assets*, as the economic boom it causes begins to reduce the interest rate. However, it isn't successful. For all too soon the edge of the axe comes up against the iron armour of the monetary monopoly, which protectively surrounds the root of the interest on tangible assets. Penetration of this armour requires sharper tools than the index currency. The following process takes place:

As a result of the index currency, which allows every business owner to plan and invest with the utmost certainty in the long term, a flourishing economy develops over the course of a few years. Such an economic boom is characterized by full employment and is certainly to be welcomed. However, as we already know, there is a catch: full employment constantly increases physical capital, i.e. more and more factories, apartment buildings, means of transport, hotels, airlines and thousands of other tangible assets are created. As a result of this capital increase, the interest on tangible assets (dividends and other interest income) gradually decreases while at the same time real wages increase. So far, everything would be fine. The material interest rate *should* fall, because a high interest rate is the expression of deficiency which we want to eradicate from this earth. Likewise, it is to be welcomed if the real wage rises as a result of the increased demand for labor. But this desirable development will soon find a limit. It will be reached as soon as the interest on tangible assets threatens to drop below the barrier drawn by the monetary interest rate. In this case the investment seeking capital withdraws from the economy. It refuses further investments. It goes on strike, causes crisis and unemployment.

A prime example of what has been said is the period of US-American prosperity from 1923 to 1929 and the period of the subsequent crisis. When the first hunger for goods was satisfied after the First World War, signs of crisis appeared in 1922. There was talk of "saturation of the market". The age-old slogan of "overproduction" reappeared once again, unemployment increased, prices began to drop. Attempts were made to *consolidate the general price level from the money side* by channeling more money into the economy through an open market policy and low interest rates. This experiment succeeded beyond all expectations. The fixed price level allowed the companies to make long-term investments and expand production. The result was the fairytale-like economic boom of the "seven fat years" from **1923 to 1929, which are commonly best characterized by the fact that almost every worker had his car and almost every household had its electric refrigerator**. The whole of America was fully employed, swimming in prosperity and abundance. The whole world looked spellbound at the American "economic miracle".

But the capitalist calamity was not long in coming. After the interest rate had gradually reached a record low, the moment came when the money-owners interest in investment waned. There was no stopping the collapse of the fixed-price policy that had been implemented over a full seven years. After a wave of speculation, quickly staged by the stock market makers, the famous "Black Friday" on the New York Stock Exchange occurred in November 1929, when prices plunged. Provided they were well informed, people saved themselves into the money. Gone were the days of investments! People waited for everything to become "cheaper". The money went on strike and the prices of goods dropped. This meant an appreciation of money, but at the same time economic crisis, unemployment. The sinking tendency transferred itself, as is to be expected with the international gold currency, also to the other gold currency countries. The world economic crisis had occurred.

In the following overview, it is especially noteworthy that during the period of the manipulated index currency, the economy was able to smoothly absorb the annual increase in labor force of more than half a million from 1923 to 1929. This fact, together with the constant increase in national income during these heyday years, is a striking proof of the extraordinary performance of a market economy with an index currency:

Production and Employment in the US 1919 to 1939; Jahr = Year; Production in Billion (german: Milliarden); Unemployed in Million verfügbar = available, beschäftigt = employed, arbeitslos = unemployed

Produktion und Beschäftigung in den USA 1919 bis 1939					
	Produktion	Arbeitslose in Millionen			
Jahr	in Milliarden	verfügbar	beschäftigt	arbeitslos	Jahr
1919	$68,80	41,16	40,29	0,87	1919
1923	$78,20	43,76	43,01	0,75	1923
1925	$83,40	45,01	44,19	0,82	1925
1926	$88,80	45,96	45,51	0,46	1926
1927	$86,80	46,94	45,32	1,62	1927
1929	$93,60	48,35	47,92	0,43	1929
1930	$82,70	49,03	45,22	3,81	1930
1932	$47,10	50,18	37,71	12,48	1932
1933	$46,00	50,83	38,09	12,74	1933
1935	$61,60	51,87	42,36	9,52	1935
1937	$80,00	53,01	46,64	6,37	1937
1938	$70,30	53,71	43,61	10,11	1938
1939	$77,00	54,39	45,33	9,07	1939
Von 1923 bis 1929: Festwährungspolitik Von 1930 bis 1939: Deflation und planwirtschaftliche Experimente					

From 1923 to 1929: Fixed monetary unit policy (Fixed currency policy)

From 1930 to 1939 Deflation and planned economy experiments

At the same time, these figures mercilessly reveal the failure of the New Deal's planned economic policy, which had been pursued since 1933 by the brain trust strategist D. Roosevelt, who, despite all his efforts, succeeded only temporarily in halving the unemployment rate by inflationary spending. It was not until the armaments boom of the Second World War that Roosevelt was gradually helped out of the depression.

However, the overview also shows that with today's money an index currency cannot be sustained in the long run. Today's money is physically superior to commodities in a fixed currency and therefore carries interest. It is invested only if an at least equally high interest rate is to be expected. Whenever the oppressive shortage is eased by diligence and industriousness, the interest rate drops and the real wage rises, the money-strike sets in soon afterwards and punishes the virtues of diligence and thriftiness with unemployment and crisis.

Only the destruction of the money-strike monopoly described in the following section allows the *implementation of an index currency under all circumstances.* In addition to the currency reform, a monetary reform must be carried out.

2. The overcoming of monopolies

a) Destruction of the Money-Strike Monopoly through Monetary Reform

In order to deprive money of its quality as a means of treasure, to make it a pure medium of exchange that can no longer be hoarded at will, but must still offer itself unconditionally even when interest rates drop - and in the end even without interest - it is necessary to burden the bank notes with ***retention costs***, to place them under "circulation compulsion" by levying a "circulation fee" to be paid by the respective holder, the amount of which is 5 to 8 percent annually. The levying of such a charge isn't unjustified for other reasons either, since money is nothing more than a *means of transport* provided by the state to its citizens, such as public transport and communications. Money is perhaps the most important means of transport of all. The levying of a user charge is therefore justified for this reason alone. However, in order to exercise an effective circulatory drive, this charge must not be limited to the pure costs of use but must reach the rate mentioned above.

The circulation fee deprives money of its current privileged position and pushes it down to the rank of the goods. This measure establishes the commodity-money equivalence, which has not been available up to now (or only temporarily in the case of German medieval silver bracteates), and deprives the money of its interest-extortionate and economically disruptive properties. Money thus changes from master to servant of the economy.

Instead of the lure of interest, in the future money will be kept in a constant and *even* circulation by the driving force of the **circulation safeguard** [german: Umlaufsicherung]. While with today's money an increase or decrease of the emitted money supply must by no means have always an effect on the general price level, simply because the money put into circulation must not always circulate, this guarantee is given with the introduction of an appropriate circulation safeguard. Thus each regulation of the money supply, which becomes necessary for the maintenance of the index currency, will reliably exercise the intended effect on the general price level. Only the effective control of both the money supply and the velocity of circulation by the National Monetary Authority will enable the maintenance of a permanent index currency.

The circulation fee for the banknotes doesn't mean that everyone has to use up his income in a hurry. No, there is still the option to postpone the consumption to any other time, to *save money.* However, not by false saving in the primitive form of *hoarding* money in stockings - which will then be connected with economic disadvantages - but in the form of ***reasonable* saving by investing or lending**. Whoever doesn't wish to keep demand for goods, automatically ensures by lending that someone *else* keeps demand in his place. **It isn't important who maintains this demand; what is important is *that* demand is maintained under all circumstances.** [Note: This includes demand of education, environmental protection, social work, art, culture, etc.]

And the short-term credit balances? A few authors recommend extending the circulation fee not only to banknotes but also to short-term credit balances (bank deposits), so-called "giral money”. Is this necessary? After what we said above about the role of credit, not at all. Since such credit balances are not separate types of money, but credit relationships, the extension of the *state circulation fee* to them is superfluous. Credit merely means a faster circulation of money. Once the index currency is realized and the banknotes are under circulation drive, then the circulation fee might be extended very soon by itself also to short-term assets *without the state having to intervene here.* The increased cash holdings due to their daily liabilities will then be associated with expenses for the banks, which will have the consequence that they will charge the holders of short-term deposits a corresponding share of these expenses in the form of a *storage fee*, with the result that the preference for short-term deposits will decrease and that for long-term investments will increase, which is certainly desirable in the interest of economic stability.

THE TECHNIQUE OF CIRCULATION SAFEGUARD

There are various suggestions on how the securing of the circulation of money (circulation safeguard) can be technically implemented. Among others, *"serial money"* is recommended, which seems to have various advantages and will be briefly described below:

First of all, it should be noted that the complete renewal of the banknotes isn't a problem in terms of cost. Years ago, a precise calculation showed that with a print run of 200 million pieces, a two-color 5-mark note (German mark in the 1950s) on watermark paper, numbered, cut, checked and bundled can be produced at a unit price of 0.7 Pfennig (pennies). In contrast, the revenue for the circulation fee of 6 percent per note would yield 30 Pfennige (pennies) per year, although it must of course be clear that the circulation fee must be kept at a certain level for reasons that have nothing to do with printing costs. In any case, it is clear from this, that, if necessary, it would also be financially viable to renew the notes several times a year.

The principle of serial money is to be applied to paper money but is not mandatory for coins; the amount of the circulation fee can be changed at any time without technical difficulties; the procedure offers such a wide range of options that all reasonable demands can be met.

The basic idea of series money is that of each denomination, several series of each circulate in equal quantities All series are easily distinguishable from each other and *only one* series is invalidated at a time and withdrawn from *circulation* - ***charged with the circulation fee for all other series*** and is replaced by a new series, while the other series that have been spared remain in circulation undisturbed. An example using two different denominations shall demonstrate this:

From the denomination of five marks (5,-), four different series are put on the market in equal quantities. The four series differ by the imprint of the serial number 1 to 4 and by noticeable marking. For example, series 1 receives a crossbar above the white side margin, series 2 receives two crossbars, etc. The individual series are thus recognizable at first glance in payment transactions, counter service, etc.

A similar procedure is followed for the other denominations. With the higher note values, it may be possible to put fewer series into circulation, for example, with a 10-mark note only two series, these with different marking, such as horizontal stripes, vertical stripes, dots, checks, etc. These series must also be put into circulation in equal quantities.

Now with the issue of the new banknotes and coins the following announcement would take place:

With effect from ... the notes issued by the Monetary Office are under circulation control.

The National Monetary Authority is entitled to charge a circulation fee of 6% per year from the money supply circulating in the service of the economy.

The circulation fee is charged monthly pro rata (bimonthly, quarterly).

The charge shall be levied in such a way that the circulation fee attributable to one denomination (five-mark bill, ten-mark bill, etc.) for the expired period shall be *allocated* to a series of the respective denomination and levied with simultaneous collection of this series by deduction from the nominal value.

The series to be collected shall be determined by lot before the collection date.

After the drawing of lots, the series not affected, including those newly put into circulation as a replacement for the series drawn, shall continue to be accepted in payment at their full nominal value by all public funds and in trade and commerce.

The series called up are no longer legal tender from the date of the draw.

The National Monetary Authority is obliged to accept the drawn series for exchange at the reduced exchange rate for a period of three months from all public cash offices, tax offices, postal services, banks and savings banks.

These (by no means all-encompassing) provisions would be the most essential thing that should lead to the unconditional circulation of serial money.

Since nobody knows which series will be affected by the draw, the entire money supply is under the effect of the circulation drive. Let's assume that in the draw for the five-mark bills, series 2 with two crossbars is affected. The circulation fee for the entire denomination is now allocated to this series. Since there are four series in circulation in the same quantity, after one month at *6%* annual fee or *1/2%* monthly fee on a five-mark bill, four times 2.5 Pfennig - 10 Pfennig will be collected from the bill or series drawn at the exchange. In the case of the ten-mark bill, we have assumed only two series. However, since they have twice the nominal value and the same term, the same circulation fee is charged for each bill. The redeemed five-mark bill is honored with 4.90 marks, the ten-mark bill with 9.90 marks. If one considers it expedient to issue four series of the ten-mark bill as well, the levy will of course increase to 20 Pfennig, so the bill will be valued at 9.80 when exchanged. The technology of series money offers the possibility that one manipulates with the series number on the one hand and with the running time on the other hand and can collect the circulation fee always in round figures, arithmetically easily seizable amounts. One could issue small bills up to 1 Mark in ten series, call after two months and collect with the round redemption loss of 10 pennies (10x1 penny for each of the ten series) to the residual value of 90 pennies.

The method, that in each case only a fraction of the issued money supply is exchanged, has the advantage that the continuous renewal of the money, which takes place together with the collection of the circulation fee, can proceed without disturbance or stagnation of the payment transactions of the economy. Anyone is able to sort out the money in question from their cash holdings on the day of the draw. This is done in two minutes. Merchants and Banks take these denominations in payment at their reduced market value, but don't hand them out to the public again, but instead conduct them into the channels of reflux. From that day on, the broad masses of workers, salaried employees and civil servants no longer need to accept the drawn series in their wage and salary payments. Banks will be obliged to likewise no longer issue any series drawn by lot. The merchants will not have to be "obliged" to do so, because they will be accommodating out of service to the customer, especially since the savings banks and post offices will have exchange offices to handle the exchange. These institutions can be equipped in advance with the replacement series - in sealed packaging. They will then only need to exchange the old series for the new ones available after the day of the draw, deducting or offsetting the circulation fee that has become due.

The suggestion of this type of series money comes from Karl Walker and goes back essentially to a suggestion made by Dr.-Ing. Pallauf as early as 1934.

[Note: It is also possible to provide the banknotes with barcodes or QR codes that contain the expiration date, so that the current value of the banknotes is machine-readable and therefore works at electronic cash registers.

THE EFFECTS OF THE MONETARY REFORM

The destruction of the money-strike monopoly causes an even, undisturbed circulation of money and - in association with the index currency - a permanent adjustment of the money side to the goods side of the economy. Total supply and total demand are now constantly in balance, **the "complete exchange" has become reality again. The full use of the economic capacity, in former times only a coincidental and temporary phenomenon, is now the normal condition.** The *self-healing forces of the economy are* beginning to stir.

For the economy, provided that it is truly freed from monopolies, does indeed have the power to heal itself, or more specifically, to restore a disturbed balance. The interest on tangible assets (goods) must be understood as the symptom of such a disturbance of equilibrium, the cause of which is the scarcity of capital. Up to now, the existing monopoly on money-strikes had prevented the elimination of the scarcity of capital, thus securing the interest rate. Therefore, the state of equilibrium of an interest-free economy could not occur. Since the money reform this has now changed. The economy freed from the monopoly on money-strikes allows workers to work unhindered and thus gradually eliminates the scarcity of capital and its symptom, interest. "The elimination of interest is the natural result of a natural order if it isn't disturbed by artificial intervention. *Everything in the nature of humans, as well as in the nature of the national economy pushes for an unstoppable increase of the so-called real capital (tangible assets),* an increase which doesn't even stop with the complete omission of the interest... "The private and the national economy have already today *directed their point against interest;* they would overcome it even if they were not always hindered by money in the development of their powers", Gesell writes. With the money reform, this hindrance is eliminated; nothing stands in the way of an interest-free economy.

With the money-strike monopoly the monopoly on capital collapses

The incipient full-scale economic activity is giving rise to gradually increasing prosperity, which is beginning to absorb the poverty of the broad population. In place of the wage-pressing army of the unemployed, a shortage of labourers has occurred, which is particularly noticeable in the subordinate and low-paid jobs. The gradual increase in real wages is most evident in the lower categories. The interest rate is shrinking and the real wage is rising. It is also obvious: the more residential buildings, places of production and means of transport are built, the more their interest, this expression of the defect, must dwindle. And the lower the interest on capital drops, the higher the real wage must rise as a result of the increased demand for workers. The share of the national income attributable to the income of labor becomes larger to the same extent as the unearned income in the form of the interest on capital melts away. The interest on capital is gradually transformed into wage income. There is no longer a money-strike to stop this development.

Capital interest and interest on tangible assets decrease in lockstep to the same extent as capital formation (in the purse of the labourer) continues. Both forms of interest on capital are in close interaction. The more the money savings grow, the more the interest on money must sink; and the lower the interest on money sinks, the more profitable investment opportunities open up; and the more money is invested, the more the interest on tangible assets must again show the tendency to follow the sinking interest on money. Thus, one wedge drives the other. Money credits and material goods gradually cease to be things of rare value for which interest must be paid. *The destruction of the money-strike monopoly inevitably entails the overcoming of the monopoly on capital.*

When does the interest on capital fall to zero?

The destruction of the money-strike monopoly has taken away the treasure character of money and it did so immediately. However, it would be incorrect to conclude that on the day of this transformation, interest would also be eliminated immediately. With the introduction of the reformed money and the index currency - both of which Gesell summarizes as “free-money" - these initially still find market conditions which allow the charging of interest. There is still a lack of tangible assets and credit money resulting in mass poverty. "This mass poverty must first disappear. And it doesn't disappear from one day to the next. Here it means working. And as long as this mass poverty isn't eliminated, work equipment, goods and capital will yield an interest. ... There is no doubt that the mismatch between demand and supply, which in effect causes the interest rate, will continue to exist for quite some time after the money reform and will only gradually disappear".

For quite a while... how long do you think that could be? How long could it take until, through untiring labor, such a sea of capital would be created that, as Gesell has said, the interest in it would perish? Keynes estimates that "within a single generation" it would be possible to bring the interest rate down to zero. Gesell doesn't give any exact time, but leaves no doubt that it will take a longer period of persevering and dedicated work to create the necessary abundance of capital.

The course of the economic periods offers us some indication of how long it could take to reach zero interest rates. Experience has shown that, thanks to the efficiency of modern technology, the periods of upswing have become shorter and shorter. Even the seven years of the American prosperity mentioned above have been enough to bring the interest rate down below three percent. The interest rate on capital reaching this low point has occurred quite often in the past. That was always the "critical limit" at which the money-strike began. After the implementation of the money reform, however, this limit disappears, a money strike is no longer possible, and the interest rate must therefore continue to drop.

Under no circumstances can it be assumed that the development will continue at this pace. **For with every fraction of a percent by which the interest rate drops, *investment opportunities multiply.*** They multiply so enormously that some theorists even believe that the demand for capital is then *infinitely* great. Some theorists argue that at a rate of interest equal or close to zero, immeasurable, unlimited amounts of capital could be used in production. The most complicated and expensive machines could be set up to do the simplest and most effortless work.

Is this a true objection against the possibility of a zero-interest rate? No, it isn't. What is overlooked is that with investments of this kind not only the return on capital but also the *maintenance and depreciation costs* play a considerable role. Even with a zero-interest rate, the demand for capital will by no means be infinite. At least it will have the effect that the curve of interest rate reduction will become flatter the closer it gets to zero. Whether it will ever reach it completely on average remains to be seen. Only a practical experiment could show whether the possibility of a zero-interest rate, as affirmed by Gesell and Keynes, and the transitional period, which the latter defines as the duration of one generation, is correct. **In any case, it can be considered certain that the 1% limit can be undercut, which alone is enough to open up unprecedented perspectives.**

As soon as the interest rate has reached the zero limit, the "produced means of income" (i.e. machines) cease to be capital, the monopoly on capital is broken, the social question is essentially solved. What is considered the cause of proletarianisation and exploitation, **"the separation of the worker from his means of production", has become meaningless and was overcome at the moment when these means of production are freely available.**

[Note: There currently *is* a zero-interest rate policy or even negative central bank interest rates. The reason why there is still only very little investment in tangible assets is that lending is limited due to the capital-strike monopoly. Who doesn't expect good business, doesn't lend his money.]

b) The Dawn of Group and Cartel

Capital abundance weakens the agreed monopolies and finally abolishes them.

Another remarkable effect will be the gradual accumulation of capital after the destruction of the money-strike monopoly. It endangers the existence of the agreed monopolies, cartels and corporations. These associations, which seem so overpowering to the outside world, always tremble before the *outsider* who has so far broken every ring and brought down every price agreement. A cartel foundation is usually preceded by the competitors considering how nice it would be if the competition in their industry would be less fierce. They talk about "cut-throat prices", which sooner or later would have to lead to ruin and assure how much a "market regulation" would also be in the interest of the final consumers. The fewer competitors there are in the branch of industry in question, the easier it is to reconcile them, the less danger there is of outsiders remaining.

Once there is a basic agreement on the establishment of a cartel, a tough battle for quotas begins. When this cliff has been overcome and the cartel has become reality, the actual cartel policy begins. Inefficient member companies are shut down at cartel costs, the incoming orders are distributed among the member companies according to quotas, and above all, "cost-covering prices" are set. As a rule, the establishment of a cartel means a price increase and, consequently, a restriction of production. Mainly because of this negative effect of cartels, legal measures against them have been demanded for a long time and have already been partly implemented (cartel laws). On the other hand, it cannot be denied that cartels occasionally contribute to specialization and rationalization of production, which is in the national economic interest. They are more inclined than a sole proprietor to bear the costs of research and development work, the results of which primarily benefit themselves but also the general public.

The blowing up of a cartel is done either by a leaving member - usually the best equipped in terms of technology and capital - who becomes an outsider because he hopes to better maintain his advantage in competition. Or, attracted by the high profits of the cartel, a well-funded newcomer enters the scene, demanding high severance pay and becoming an outsider in case of non-fulfillment of his demands.

In view of the insights gained into the nature of monopolies, a fundamentally new and above all ***liberal point of view*** also emerges in the cartel question as follows:

As long as cartels are not made mandatory by law, but are based on the principle of voluntariness and therefore allow for outsider status, there is no objection to them. The outsiders have already ensured to a certain extent that the trees of cartels don't grow into the sky. Once the proposed reforms are implemented, the significance of the outsiders will increase enormously. *The more well-funded the outsiders are, the more dangerous they will become.* With economic development moving toward zero interest rates, as will be the case with monetary reform, the financing of promising outsider endeavors will no longer be a problem. The outsiders will then appear in a completely different way than in the present time of chronic capital shortage. One has to keep in mind: Today, cartels may be so powerful because they are armoured by a *triple* monopoly: By the primary monopoly of money-strikes, which creates a general monopoly of capital, and also by the cartel's agreed monopoly. Once the destruction of the primary monopoly of money-strikes has destroyed the monopoly of capital based on it, then exaggerated cartel demands immediately call the outsiders to the scene who destroy such agreements. Cartel agreements are thus *tertiary* phenomena, swamp flowers on the ground of the secondary monopoly on capital; a money and currency reform in our sense puts them in their place.

3. Some legal monopolies are being revised

The proposed reform of money and currency destroys, as has been shown, the exploitative money-strike monopoly and the monopoly on capital derived from it, as well as the no less exploitative group of agreed-upon monopolies. The reform mentioned above cannot have any effect on the group of *legal* monopolies, since they owe their existence to legislative acts and can only be changed or erased by such acts.

It has already been pointed out that the legal monopolies are insignificant in comparison to the "big" monopolies of money, on tangible capital and land. However, if one wants to put into practice the principle of economic justice and solve the social question that pushes towards totalitarianism, then one will have to sift through the legal monopolies, despite their smallness, and reform them wherever they serve exploitation.

Protection of *trademarks, designs, inventors and copyrights are* not exploitative*.* On the contrary, the purpose of these monopolies is to protect the creative work invested in inventions and other intellectual works from exploitation by the unappointed. Thus, **they don't serve to create unearned income, but to protect earned income**. People or companies have created certain trademarks at considerable expense, inventors developed new processes in years of work, an author wrote a book that took a long time to come to life and an engineer found a new form or function. These inventions are embodied in trademarks or other legal rights of intellectual property. It would be inequitable to deny a person or a company the protection of the non-material assets by exposing them to free competition. The principle of free competition, usually the most reliable guarantee against exploitation, would be reversed here. In these cases, the principle of economic justice imperatively demands the monopoly, even if it is limited in time in some cases.

As far as the *note-issuing monopoly is* concerned, its indispensability has already been pointed out. **The reform we consider necessary doesn't concern the monopoly as such, which must remain in place, but only the form in which it is exercised.** An emissions reform cannot be dispensed with. As has already been explained, the privilege should be transferred to a National Monetary Authority with the sole task of manipulating an index currency. The necessary has been said in the section on currency reform.

The *fiscal monopolies* created by the state in the exercise of its financial sovereignty (e.g., tobacco), which are merely forms of taxation, require no special comment.

All other concessions and privileges that hinder the free exercise of trade would be abolished. Exceptions should only be granted where *the public interest* (not to be confused with the interest of a group or profession) so requires. In these few special cases, the public authorities would have to reserve either the right of tariff sovereignty, i.e. the right to determine the price or to ask the highest bidding lease of the monopoly. The monopoly remains in place, but exploitation of it through excessive prices is either prevented or the monopoly profit is passed on to the general public in the form of leasing.

4. Neutralization of the monopoly on land

While the interest on capital resulting from the artificial monopoly of capital is to be eliminated according to our proposals, by increasing the material goods without worrying about the decreasing profitability until the scarcity caused by the interest is overcome, things are fundamentally different with the land, which according to our classification forms a *natural* monopoly. Land *cannot be multiplied at will.* Therefore, land must remain a monopoly for all times, i.e. competition will never be free, but will always be limited. Because only those who own suitable land themselves can participate in the competition. Everyone else is excluded from the competition. As suitable land or land at all is limited, competition must remain limited as well. For this reason, the ground rent, which is only the expression of the relative scarcity of land, can never be eliminated. On the other hand, humans, just like any other living being, are dependent on the use of the land, from which all material goods originate, no less so than on light and air.

The ground rent therefore flows constantly. It can probably be prohibited by legal compulsion (e.g. in the form of tenant protection or a price stop), but not eliminated. In this case the house- and landowner doesn’t profit, but to the protected tenant and/or the buyer of the land at stopped price, as is to be shown.

The ground rent is, as mentioned above, nothing more than *the price achievable for the use of the land.* This price is in itself quite justified. The greater the advantage that the use of a certain area of land (including water bodies) offers, the higher the price to be paid for this use. Whoever uses the land and pays this price will not be charged unreasonably, because he only pays the equivalent value for an advantage claimed by him. If someone would use the land without being obliged to pay the ground rent, then the ground rent remains, as already indicated, nevertheless; it then remains in the hands of the land user. This is without exception the case if the land owner and the land user are one and the same person, but possibly also if the land owner and the land user are two different persons, when the latter has to pay a lower price or rent than the ground rent due to official price or rent interventions. *Thus,* ***the land interest can at best be channeled into other pockets by state intervention, but not eliminated****. As a* rule, the landowner charges the full equivalent value in the form of the ground rent for all the advantages that the use of his land can offer. For the land user it is therefore irrelevant where he works or lives, or what quality of land he works. Gesell therefore writes about the agricultural ground rent: "In economic terms, the ground rent transforms the globe into a mass that is quite monotonous and similar for the leaseholder, business owner, capitalist (as long as he isn't the landowner).” Thus, Flürscheim says: "Just as all unevenness of the sea bed is transformed by the water into a smooth surface, so the interest (ground rent) levels the ground.” And that (and this is strange) reduces the yield of work for all farmers (that don’t own the land) evenly to the yield one can expect on wasteland or from stray land in the wilderness. The terms fertile, infertile, loamy, sandy, swampy, lean, fat, good or badly situated are rendered meaningless by the ground rent in economic terms. The ground rent makes it completely indifferent for all workers whether they work heath land in the Eifel, garden land in Berlin or vineyards on the Rhine".

Herbert K. R. Mueller says about interest on urban land: "All advantages of the location of the land, thus all savings at work, time, freight, the profits from increases in sales, all advantages of a good housing situation and all other appearing privileges are taken in by the landowner as increased rent. They therefore lead directly to an increase in the ground rent compared to the less favorably situated land, although the advantages of the location have not been created by the landowner's own efforts, but by the work of the general public".

a) The pure ground rent

When we talk about ground rent here, we mean without exception the *pure* ground rent, which is the price for the use of the *pure ground (land),* after deduction of the land tax payable on it, excluding all buildings and other capital expenditures for ground (land) development and improvement (sewerage, roads, trees, etc.). The part of a lease sum attributable to these things doesn't represent a ground rent, but a capital interest. We know that this interest on capital is fatally affected by our monetary reform, so we don’t need to deal with it further here.

THE PROBLEM

But how can we seriously tackle the seemingly unassailable pure ground rent without doing - and that is crucial! - an injustice to third parties? We are faced with the following double problem, which must be solved:

On the one hand, it is undisputed that the unearned income from land must not be allowed to remain. Not only because it contradicts **the first principle of economic justice, which is: "To each according to his merits!"**, but because this unearned income is also one of the causes of the social ills that are paving the way for totalitarianism. It is precisely because the ground rent comes from a natural monopoly which cannot be eliminated, that it will *always* reduce the income of labor, whatever we do. It is therefore only fair and just that the ground rent should benefit the working people in another way.

There is another reason why the unearned income from land must not be allowed to remain: **if the proposed monetary and currency reform were to lower capital interest, land prices would climb to fantastic heights**. Such *a relative increase of the interest on land caused by a lowering (or better nullifying) of the interest on capital would give land owners unimaginable profits, and with a zero interest on capital hardly anyone would sell land.* **For this reason alone, money and currency reform absolutely need to be supplemented by land reform.**

On the other hand, however, this land reform must not harm anyone, not even the landowners, who must be regarded as honest buyers. An intended injustice in this direction would - apart from all ethical objections - put insurmountable obstacles in the way of the realisation of a land reform by democratic means.

Before we turn to the proposals for rendering the monopoly on land harmless in the sense of a social market economy, it is useful to clarify a few terms that have mostly been vaguely presented in the literature to date. It is customary to speak of "the ground rent” in general terms, without indicating whether this refers to the ground rent that has already accrued or its future increase - the ground rent increase - and whether such an increase is to be understood as absolute or relative. In addition, it wasn’t always clearly differentiated between land value and land price, although these are two different things.

LAND VALUE AND LAND PRICE

The ground rent is the price that can be achieved for the use of the land. From the level of the ground rent achievable for a certain area of land, the *value of* this land can now also be determined using the capitalization formula given below. It is simply determined how large a capital would have to be in order to yield as much interest on capital - at the respective national interest rate per year - as the land in question bears in annual ground rent. The land value is therefore the land interest capitalized at the state interest rate.

The *land price, on the* other hand, is the payment negotiated on the free market for the acquisition of land, i.e. it isn't equivalent to the land value calculated according to objective standards.

THE CAPITALIZATION FORMULA

The interest rate plays a decisive role in the calculation of the land value. The importance of the interest rate is due to the fact that everyone who acquires the land for economic purposes usually wants to achieve the same return from the invested amount as if he had invested it interest-bearing. The value of the land is derived from the formula

$$\frac{\text{annual ground rent x 100}}{\text{Interest rate}} = \text{ground value.}$$

If the yield of a certain land amounts to $400 annually with an interest rate of four percent (4%), then this results in a land value of $10,000, because $10,000 invested in interest would also bring in $400.

Occasionally the land buyer is also guided by other considerations. In times of inflation, for example, he will be prepared to pay a higher price than the value of the land, because securing his capital from devaluation seems more important to him than interest. Security comes before return. When acquiring undeveloped building land, which is often not used at all, the land speculator isn't guided by the level of the ground rent, but by the expected future sales price after deduction of the costs incurred up to that point, its risk and profit.

ABSOLUTE CHANGES IN THE GROUND RENT

At the same time, the value of land increases with the interest rate on land, for example if the population density increases or if the import duties for agricultural products are raised or if the infrastructure of a plot of land becomes more favorable and above all, if land previously used for agriculture or forestry is converted into building land. Example: If the ground rent of the mentioned land area increases from $400 to $600 annually, then there is an absolute increase of ground rent by fifty percent and thus - assuming a constant interest rate - an increase in land value from $10,000 to $15,000. (It is to be noted that an absolute increase of the pure ground rent always occurs without intervention by the landowner, which means it concerns the emergence of an unearned income.)

Conversely, the value of land decreases with the land interest rate when the population density decreases or when import duties for agricultural products are reduced and also when the infrastructure of a plot of land becomes less favorable due to a shift in infrastructure, through devastation, destruction, etc.

APPARENT CHANGES IN THE GROUND RENT

With today's constantly fluctuating currencies, by the way, an absolute change in the interest rate on land isn't immediately apparent. What catches the eye are often only *apparent* changes. For example, an absolute increase in the value of the land is often mistaken for a nominal increase due to a currency devaluation. Only if one cuts from an occurred land price increase the amount by which the purchasing power of the money (measured by the index of the commodity prices) became smaller in the objective period, a possible increase of ground rent results.

Example: In the course of a number of years, the price of the mentioned property has risen from $10,000 to $20,000. In the same period of time, however, the commodity price index has also risen by one hundred percent - in other words, inflation has occurred. As a result, the purchasing power of money has dropped to half, i.e. the $20,000 is (in its purchasing power) worth just as much as the $10,000 before. It follows that the price increase of the mentioned floor space is only an apparent one; it is only the expression of the operated monetary devaluation. In reality, land interest and land value have remained *unchanged.*

The game becomes a farce when, on the sale of the property in question, a capital gain tax is levied on the - non-existent - "capital gain". Today's fluctuating currencies lead to such wrongdoing!

RELATIVE CHANGES IN THE GROUND RENT

The land value decreases - *despite constant nominal and factual ground rent or land yield,* if the interest rate increases - according to the given formula. If in our example the annual rate of ground rent remains unchanged at $400, but the interest rate increases from *4%* to 5%, the land value will decrease from the original $10,000 to $8000 according to the formula 400 x 100 = 40,000: 5. A *relative* lowering of the interest rate on land has occurred. So, although the amount raised by the usage of that land, the interest, has remained the same, it has *changed in relation to the interest income of a correspondingly high monetary capital.* In other words, because as a result of an increase in the interest rate, an amount of $8000 now bears as much interest as an amount of $10,000 in the past, the value of the land has decreased to the same extent and the ground rent has experienced a relative reduction.

It will behave the other way round if the interest rate drops, a case that is of particular interest in view of the proposed interest-reducing money and currency reform. If the use of the mentioned area of land remains *unchanged* at $400 per year, but the interest rate decreases from *4%* to *2%,* then according to the formula 400 x 100 = 40.000: 2 a value increase of the land from $10,000 to $20.000 results, i.e. the land value is doubled and analogously the interest rate on land increases relatively. Although the sum of the ground rent has *not changed*, the value of land and the ground rent increase relatively due to the decrease of the interest rate on capital.

A mixed example: Let’s assume that after the implementation of the monetary reform, the interest rate on land of the above-mentioned area has risen from $400 to $500 per year after a number of years due to increasing population density and at the same time the interest rate on capital has been reduced from 4 *%* to 1 *%.* What is the consequence?

First an *absolute* increase of ground rent occurred, about 25%, i.e. from $400 to $500, in addition, a *relative* increase of ground rent to the fourfold (i.e. by the reduction of capital interest from 4% to 1%), despite unchanged absolute ground rent. First the ground rent has thus increased as from 100 to 125 and then still quadrupled, whereby according to the formula 500 x 100: 1 the land value increased from $10.000 to $50.000.

If the interest rate were to be reduced to zero, the value of land would rise to *"infinity"*, which means that land would then theoretically no longer be sold. There is no need to emphasize that the relative increase in ground rent, just like the absolute increase, is the creation of an unearned income.

How should the monopoly on land be made harmless? In answering this question, a distinction must be made between the already existing ground rent and the future increase in ground rent, both absolute and relative.

b) The already existing ground rent

A distinction is made between those that have been capitalized and skimmed off at the time of change of ownership and those that have not yet been skimmed off.

THE CAPITALIZED AND SKIMMED GROUND RENT

We encounter this in all land sales. Example: A property was sold ten years ago for $10.000, because the ground interest brought in by it amounted to $400 annually with a general interest rate of 4% at that time. The capitalized and already skimmed off ground rent amounts to $400. *The skimming was carried out by the previous owner.* He had this amount - capitalized at $10.000 - paid by the current owner as purchase sum. The current owner draws an annual ground rent of $400 from the property, but this amount is no more and no less than the interest on the purchase sum he paid. If he has bought with his own capital, the ground rent of $400 corresponds exactly to the capital gain he had before; if he has bought the land with outside capital, he doesn't collect more than the interest service requires. *Beyond that, the owner of the land isn't left with any additional undeserved profit from interest on land.* Even if the current owner has inherited the land and has paid off other co-heirs in the process (for which purpose he may have had to take on a debt burden, which he still has to pay interest and repay on an ongoing basis), nothing fundamentally changes in our example. *This interest on land skimmed off from the previous owner can no longer be recorded for tax purposes for purely technical reasons.* If one wanted to stick with the current owner, who possibly acquired the property honestly with his savings, this would be tantamount to expropriation without compensation, which would be completely unmotivated because it would unilaterally affect the accidental owners of land. The taxation of half of the interest on land would be equal to a half, the taxation of the whole interest on land which would be equal to a *complete* expropriation of land without compensation, because a land which doesn't bear any interest no longer has a price.

THE EXISTING, NOT YET SKIMMED OFF GROUND RENT

Let's assume that the owner of the mentioned land still owns it today. In the ten years that have passed since the purchase, the interest on land (ground rent) has risen from $400 per year by $100 to $500 without his intervention, for example by allocating the property to a better infrastructure. Therefore, the land value of $10.000 increased to $12.500. The existing, not yet skimmed off ground rent amounts to $100 annually.

The following is to be said for this: If one doesn't seize the already skimmed off ground rent fiscally, for instance with a successful speculator, simply because one cannot seize it afterwards any longer, then it would be a huge injustice to place the coincidental owner of the property worse than any speculator. Quite apart from that, it is questionable whether an increase in ground rent that occurred during the course of the period of ownership was a real one and not just an *apparent one* caused by inflation, which isn't easy to determine retrospectively.

For these reasons: a touching of the already accrued ground rent is to be rejected for moral and practical reasons, whether it has been capitalized and already skimmed off or not.

c) The increase of interest on land

As far as the absolute and relative increase of the interest on land is concerned, however, there are no objections whatsoever to its use for public purposes or, more precisely, to its confiscation by the state or municipality.

If we first look at the causes that lead to an *absolute* increase in land prices, such as increasing population density, improved infrastructure due to railroad and road construction, conversion of land previously used for agriculture and forestry into building land, etc., it becomes clear that all these changes occur *without the land owner contributing* or doing *anything to it*, or even being able to contribute. Rather, all these circumstances occur solely *through the actions of the general public.* The landowner would receive a future absolute increase in land interest just as undeservedly and with the same undesirable social consequences as before. Therefore, we need a land reform, by **which it is achieved that the absolute increase of the interest on land exclusively goes to the general public, to which it owes its origin**.

It is no different with a *relative* increase of the interest on land by a lowering of the interest rate. *Also, here it isn't a matter of the merits of the land owner.* It isn't he who creates such an abundance of capital which leads to a reduction in interest rates, but again only the work of the general public. Therefore, a relative increase of interest on land - which would possibly drive the land price to fantastic heights - would be undeservedly paid to the land owner. The fact that the increase is collected for the benefit of the general public doesn't do him any injustice, because without the work of the general public the increase would not have occurred. If today, according to the law of capitalization, capital and land yield the same amount of profit, it is only right that after a reduction of the capital interest rate caused by the money and currency reform, the land owner isn't in a more favorable position than the capital owner.

It is thus certain that a confiscation of the absolute and relative increase of interest on land, which will appear in the future, doesn't violate any kind of just private interests.

John Stuart Mill has already expressed the same view:

"Let's suppose the case that some kind of income has the tendency to increase constantly, without any action or effort of any kind on the part of the owners, who thereby become a class of society which, in complete passivity, is in turn continually enriched by the “natural course of things”. In such a case it would not be a violation of the principles on which private property is based, if the state claimed this increase of wealth or a part of it for itself as *soon as it came into being.* No one would actually be deprived of anything in this way; it would only be a charitable use of an increase in wealth brought about by circumstances, which would otherwise be nothing more than an undeserved increase in the wealth of a special class. But this case now exists in reality in the case of the ground rent. The regular progress of a nation increasing in wealth necessarily brings about an increase in the income of the landowners at all times and not only increases the amount of it, but gives them a greater share in relation to the rest of the national wealth, regardless of any expenses or efforts on their part. They become richer, as it were, in sleep, without work, without risk, without saving. According to the general principles of social justice, what right do they have to this increase in wealth? What injustice would have been done to them if society had reserved the right to tax this self-generated increase in ground rent from the outset as high as the financial needs might require? “

Even if Mill here means primarily the increase in land value of an absolute kind - for instance by population increase - he has also thought of an (admittedly modest) relative increase, as emerges from his phrase of "regular progress of a nation increasing in wealth”. For Mill as a classic, increasing national wealth and lowering interest rates were one and the same thing.

d) The technique of recording the absolute and relative increase in interest on land

Two technical solutions have been proposed for recording the future growth of land interest rates, namely

(1) the transfer of all land into the ownership of the state or municipalities, or

(2) the taxation of the absolute and relative ground rent increase through a tax on real estate profits.

Both ways are possible and can also be combined. However, since the author doesn't want to confuse, but rather offer clear solutions, we will concentrate, in the following, on the **communion of the land** as the kind of technical solution proposed by Silvio Gesell himself. It envisages that all the pure land in private hands will be bought by the State. The price to be paid is based on the rent that the land has paid or would pay, capitalized at the national rate of interest. The purchase amount is paid to the landowners in interest-bearing government bonds of a state nationalization bond in the form of securities whose price is constantly kept at 100 by variable interest rates.

As a matter of principle, the nationalized or communalized land is leased to the highest bidder for *private* cultivation, i.e. it isn't farmed by the state according to the communist method. As a rule, the former owner will also be the tenant. (State cultivation is only envisaged in exceptional cases, such as large hydroelectric plants).

Immediately, no one wins or loses by the repurchase of the land by the state or municipality. The former landowner draws from the government securities an interest that she has drawn earlier in ground interest from her property, and the state draws from the property in ground interest that which it has to pay in interest for the government securities.

The cash profit for the state only results from the money and currency reform to be carried out simultaneously with land municipalization, which gradually lowers the

interest rate on capital and thus leads to a relative increase in the interest rate on land (ground interest), which falls to the municipality. With a zero-interest rate, this increase ultimately includes the entire ground rent.

If, for example, the state has bought back the land by an amount of 200 billion at an interest rate of *5%*, it must first pay 10 billion annually to the former landowners as interest on the titles and collect the same amount in land interest. As soon as the interest rate falls to 4 or 3%, for example, the annual interest payment is reduced to 8 or 6 billion, while the land interest received remains unchanged at 10 billion, so that the State makes a profit of 2 or 4 billion, which it uses to repay the debt, while the land interest continues to flow into the municipal treasury. With each further interest rate reduction, the relative increase in land interest rates thus increases and with it the surplus for the municipality. The interest service for the land nationalization bond is constantly decreasing, partly by lowering the interest rate and partly by paying off the debt. **As a result, within less than 20 years the entire national debt arising from the nationalization of land can be repaid.**

When the "municipalization" begins, the ground rent goes into the state treasury and thus everyone benefits directly in the state (municipality). **This, however, reduces the amount of work that everyone has to do for a living - and unleashes a permanent full employment economy!**

Here, Silvio Gesell's findings have provided clarity and revealed a surprising solution to an otherwise almost impossible problem. Gesell's proposals have given the word *land reform* a whole new meaning. **Today we know that currency, money and land reform *belong together,* that the fight against the monopolies of money and land must be conducted comprehensively and that isolated measures promise little success.**

For without the money and currency reform, land reform can only produce the absolute increase in ground rent. Only the monetary reform, with its organic reduction of interest rates, will bring about the decisive relative increase in ground rent that is necessary to buy back the entire land at its full value by the state in the interests of society.

Conversely, the money and currency reform with the resulting desirable full employment and interest rate reduction isn't feasible on its own, because a reduction of interest rates to zero would result in a harmful increase in land prices to "infinity". **Monetary and currency reform on the one hand and land reform on the other hand are interdependent and form an indivisible whole.**

If the state or municipality buys back the land, it would be wrong to expect landowners to accept bonds in money with fluctuating purchasing power in exchange for their land and thus run the risk of devaluation.

Although land reform cannot change anything about the existence of the monopoly on land, it does make it harmless by making the monopoly profit available to the general public. Moreover, it makes differential profits through land speculation impossible.

5. The problem of economic power

The economic policy debate of the 19th and 20th centuries usually proceeded from the basic assumption that there were only two opposing types of economy: either the so-called free economy, guided by the influences of the market - expressed in the word private capitalism - or the administrative economy, centrally controlled by state command, briefly outlined by the word state capitalism.

The age of the so-called free economy had given birth to the problem of economic power growing to dangerous proportions. **The large accumulations of capital in a few hands, as the interest-based economic system brings with it, had to create power-political crystallization points that radiate into all public life and give their bearers a preponderance that can no longer be reconciled with the principle of democracy.** Thus, it is no wonder that the idea, which at first glance seemed quite plausible, that private claims to power could be successfully countered by strengthening the public sector, gradually gained acceptance. This was all the more so since the recurring social and economic disruptions offered the welcome opportunity to expand state influence as much as possible through social legislation, planned economic interventions of all kinds, and not least through the nationalization of large industrial and transportation enterprises, and to weaken private power to the same extent. Although the latter succeeded to a certain degree, it soon had quite undesirable side effects. We already know that the increasing state interference in the economy is tantamount to a development toward state monopolism and totalitarianism. The steering of the economic process by centralized economic positions, even bureaucratized social legislation alone, but above all the direct nationalization of industrial and transportation companies creates even larger and more dangerous power structures than the so-called free economy knew. **The more centrally controlled, managed and administered, the more the bureaucratic state apparatus must grow and the state and economy must become an inextricable whole.** In such a system the politician is at the same time the master of state *and* economy. The omnipotence of the few is then no longer limited. Where all economic power, all power of leadership and disposition is concentrated in a single place, a place which at the same time commands the state and its means of power, totalitarian state slavery is inevitable.

Neither the so-called "free" economy on the one hand nor the state planned economy on the other hand are capable of solving the problem of economic power. The third possibility of **a truly free competitive economy** alone, which we advocate, is promising. ***Competition is the only means of breaking economic power.*** It can only be realized if the monopolies existing today are rendered harmless. What Walter Eucken said applies to a competitive order of this kind, to a de-monopolized and therefore *social market economy:*

First: In such a competitive order, prices, which have come about in full competition, steer the economic process - for a given distribution of income - in a meaningful way. The economic calculation is correct. The prices and price relations correctly express the scarcity of the individual goods, so that the processes in the individual enterprises interlock and the total process is optimally directed to the satisfaction of human needs - whereby, however, humans can only assert needs according to their income.

Secondly, in a competitive order of this kind, performance competition can develop.

There is no competition that is harmful or obstructive (monopoly competition). Private initiative can develop fully, but it is controlled by competition.

Third, such a competitive order is highly suitable for the international order. It doesn't have the shortcomings of a bequeathed "free" economy or an economy of the centralized administrative economy type and it also links businesses and households sensibly across borders.

Fourth, freedom and order are in balance in such an economy of free competition. It preserves the self-responsibility of the individual; but it doesn't grant him the freedom to eliminate the freedom of others by creating power structures.

The prerequisite for the functioning of such a free competitive order is a stable currency. Recent economic history shows that states find it difficult to create a functioning international monetary order and usable national currencies. Without their existence, however, the competitive order cannot function adequately. Prices are expressed in monetary units and paid in money. Price and cost accounting therefore loses its organizing power when the monetary system fails, for example, in inflation and deflation processes. Only when free currency markets exist and when the currency is reasonably stable can the economic process be successfully steered by competitive prices. If this partial order - the currency - fails, a central administrative economic control is evoked in other parts of the economy.

In summary, it can be said that **the turning away from the previous almost uninterrupted currency botch-ups in association with the neutralization of the money-strike monopoly and monopoly on land creates the conditions for a self-regulating, truly free market economy and at the same time solves the problem of economic power.**

VI. Review and outlook

The previous remarks have shown that it is the economic monopolies, and always ***only*** the economic monopolies, which - in combination with the almost continuous currency botch-ups - cause both social *and* economic disruption. **The economic form of private capitalism isn't, as is usually assumed, an economy of free competition, but in reality a monopoly economy based primarily on the primary monopolies of money (capital) and land.** For this reason, it is just as unsustainable in the long run as continuous compound interest is possible in practice. The monopoly-related disruptions inevitably lead to increased state intervention in the economic process, which is generally known as a planned economy. By their very nature, the interventions of the *state* planned economy - just like the cartels and corporations of the *private* planned economy - constitute nothing more than additional, secondary monopolies, i.e., the already limited competition is *further* restricted by them.

In order to alleviate the social tensions caused by the two primary monopolies of money and land and to offer the exploited masses a surrogate for the lack of economic security, the state resorts to complicated and confusing social legislation of all kinds, in addition to the aforementioned creation of additional monopolies, which further intensifies the generally observable urge for bureaucratization.

State planned economy and social legislation probably strip the private capitalist system of its most offensive forms on the one hand, but are at the same time the pacemakers of totalitarianism. **They try to put a friendly smile on the face of capitalism without, however, changing anything about the exploitation caused by the monopoly.** Thus, gradually develops what Friedrich Salzmann calls "social capitalism": a middle ground between private and state capitalism, a transitional phenomenon from one form of exploitation to another. In "social capitalism" the representatives of private capitalism and pseudo-socialism have made their peace. The interest rate is, so to speak, guaranteed by the state and, moreover, an economic depression, which would bring down the whole house of cards of dubious compromises, is prevented by the means of dosed inflation.

The monopolization that has followed this misguided development is gradually transforming "social capitalism" into state capitalism. The market economy, distorted only by a *few* monopolies [i.e. oligopolies], is increasingly being replaced by the state command economy, which aims at *complete* monopolization.

Private and state capitalism, therefore, contrary to a widespread view, don't form opposites but are, despite all external differences, completely *alike*, since both are by their very nature based on monopolies, i.e. on the restriction, if not the exclusion, of competition. The principle of exploitation is the same for both. Private capitalism is a semi-monopolistic [i.e. oligopolistic] form of economy, state capitalism is an all-monopolistic one. In state monopolism the individual capitalist in private monopolism is replaced by the "*solidary* corps of *the leaders of the ruling party"* who have established a general economic monopoly of the state and with its help exploit the subjugated masses without limit. The state is both an apparatus of power and an instrument of exploitation in the hands of the leaders of the ruling single party.

In terms of the principle of exploitation, there is therefore no essential difference between private and state capitalism, only a gradual one. On the other hand, there is a very essential difference in the form of the principle of economic regulation: in private capitalism it is the market - albeit to a certain extent distorted by monopolies -, in state capitalism it is the "order from above". **Both forms of economy are the beginning and end of one and the same undesirable development, the final result of which is totalitarianism, the unbridled despotism of the state.**

The real antithesis to both private and state capitalism is the free market economy, which has never been realized anywhere before. By a free market economy is meant an economy *free of monopolies.* **Such a de-monopolized economy is also the ideal type of social market economy.**

There is only one way to break the circle of errors and achieve a social market economy: the *fight against monopolies.* Only when the dispensable artificial monopolies have been eliminated and the natural ones rendered harmless will the previous misguided development towards totalitarianism be stopped and redirected into the paths of an unprecedented economic and cultural upsurge.

However, by a fight against the monopolies we don't mean the previous efforts, which are called so, for example in the sense of anti-trust legislation or cartel law. Such efforts, since they don't direct their tip against the two original monopolies, but only against their consequences, the secondary monopolies, cannot be expected to have any significant success. **Fighting against the monopolies means above all: attacking the two original monopolies, money and land, through a reform of currency, money and land.**

Overcoming the monopolies also means overcoming the threat of totalitarianism within the state. This threat isn't a problem outside the state and certainly not a problem of war but an internal economic problem which can be solved organically only through the regulatory measures described above, which will bring about a recovery of social and economic conditions. *Every state* has the possibility of leaving the ground of capitalism which is trembling under the unheard-of tension of the social question at any hour and to take the way out into freedom, into the only decisive *economic* freedom.

This freedom can only exist in a truly free market economy. It alone is capable of realizing the ideal of full labor income and thus solving the social question and fulfilling the millennia-old longing of the people.

A free market economy is not only synonymous with a social market economy, it is also socialism par excellence - socialism in freedom!

But a competitive order of the kind proposed finally realizes the ideal of democracy. Democracy presupposes *equal rights* which could not exist within the traditional semi-monopolistic economy. Under the rule of privilege, democracy becomes a lie, a distorted image.

A constitution, however ideal and democratic it may be, offers no protection against the threat of totalitarianism if it doesn't include economic freedom, the unrestricted right to participate in competition - embodied in the monopoly-free market.

The social market economy can only be realized in an evolutionary way. It is a *regulatory* measure. But it is also *necessary* in the deepest sense of the word; for only it can turn the tide of the crisis we find ourselves in.

In economic terms, the proposed reforms open up far-reaching prospects. A new era of private entrepreneurship on an unprecedented scale will dawn. The uninterrupted and regularly circulating money, together with a fixed currency that allows entrepreneurs to plan for the long term, will ensure a permanent full economic operation.

General prosperity will increase and all types of labor income will increase as the various forms of *unearned income gradually disappear*, ultimately reaching the level of full labor income. The wage will increase at the expense of the interest income. Differences in wage levels will only be due to different personal performance.

It will be up to each individual to decide whether, once he or she has enough goods and doesn't wish to make any further savings on credit, to reduce working hours. Security in old age will be provided for through the various forms of saving, including old-age insurance - through saving that will be possible for all those who work, because of their higher income, without having to make sacrifices.

If wealth is translated as power of disposal over people, whereas prosperity is translated as right of disposal over things, then in a free competitive order of the kind outlined above **the wealth of the few will be replaced by the prosperity of the many**. Wealth and poverty, these two equally unequal and inseparable siblings, will then be equally a thing of the past.

The implementation of the proposed reforms will result in an economic order that can rightly be described as a ***natural* economic *order***, of course, because it does justice to the nature of human beings in every respect. We have come to know this nature as predominantly selfish. Today, under the rule of the monopolies, the pursuit of self-interest often enough contradicts the common good. Hence the well-meant advice of moralists and ethicists to fight self-interest. They have failed to understand that self-interest in itself is perfectly valid and that it is only some purely *technical* shortcomings of our economy that make self-interest so often lead to injustice. **In a monopoly-free economy, on the other hand, in which there will be only *one* type of income, the wage, self-interest and common good run parallel at all times. The more individuals work, obeying their self-interest, the better it will serve the interests of the common good.**

Today's endless conflict between self-interest and common good is a quite inevitable consequence of the prevailing money-strike monopoly and monopoly on land. An economy liberated from these two monopolies forever removes the basis for this conflict, because in it, humans will always act out of self-interest as the common interest demands. The doctrine of the sinfulness of human nature because of its selfishness, which has been upheld for thousands of years by the founders of religion, teachers of religion, philosophers, moralists, etc., thus comes to an end once and for all. It is by no means necessary that we, following these teachings, toil through eons to overcome ourselves, in order perhaps one day to become charitable after all - but we can already now, today, *in this hour,* accomplish the fraternization of the previous adversaries of selfishness and common good. It isn't necessary for us to reform the human being for this purpose; it is rather sufficient to change the faulty work of man, our monetary system and land law.

In other respects, too, the economic order we are striving for will lead to healthier and more natural conditions. The principle of competition, which can be observed everywhere in nature, will also become more effective in the field of economy than it has been so far. Today this competition is largely distorted by the existing monopolies. The fighters confronting each other in the economic arena are equipped in very different ways. The battle is fought on an unequal level. As a result, it is usually not the more capable but the better-equipped monopolist [oligopolist] who wins over the unarmed opponent, who often has no opportunity to make his move.

The proposed reforms in the sense of a social market economy will gradually relieve the state of all the tasks that have been wrongly imposed on it as a result of the previous oligopoly-induced undesirable developments, which it cannot solve satisfactorily anyway and from which it is therefore constantly suffering. As social pacification progresses, it will be possible to *dismantle* the state. This doesn't mean, of course, that there is now nothing more to be done for it in the economic sphere. Its field of activity will change. It will no longer have to concern itself, as it does today, with things which the individual citizen can do better and, above all, more economically, but will confine itself to those areas in which the individuals, even with the best will in the world, cannot do anything by themselves. If today's state budget is like a bottomless pit and the Minister of Finance like an explorer of new taxes, the dismantling of the civil servants and salaried employees that will take place in the wake of the proposed reforms will inevitably reduce taxes to a tolerable level. A fundamental tax reform, today an unattainable dream, will then become reality. It is within the realm of possibility that one day the entire public expenditure will be more than covered solely by the collection of the ground rent. Taxes in the current sense will then hardly exist.

With the solution of the social question, the nature of the state and with it that of politics, will change fundamentally. **Politics will cease to be what it is today - the continuation of war by other means outside and a class struggle inside.** The last politics of this kind will be buried with the last monopoly. The new politics will be: Service to the community in a state of *equal* citizens, united in peaceful work in free competition. The state would become *free citizenship* in the sense of Franz Oppenheimer, a free society led by self-administration.

It seems pointless to consider how this future social order, built on *the* basis of a *de-monopolized and therefore social market economy,* will be described, whether as "social liberalism", "liberal socialism" or "universalism". Basically, it realizes the ideals that the best of all times had in mind.

Those who believe in man's right to work and to receive the full return from his labour; those who have recognized the devastating effects of class struggle and economic disruptions that push toward totalitarianism; those who abhor war with its atrocities and acts of violence; those who hate slavery and love freedom - may help to replace the existing unworthy system with a better one.

The sources of the unearned income

A) The *monopolies…*

… are the sources of the *regularly* flowing unearned income. Depending on the degree of freedom of competition they embody, they are divided into *complete* monopolies, which means the *exclusion of competition*, and *incomplete* monopolies, which means the restriction of competition. In the latter case, competition is neither excluded nor free, but limited to a narrower circle of persons. Both types of monopoly are completely identical in nature.

According to their origin I also subdivide the monopolies as follows:

Name of the source	Name of the unearned income	Remedy
1. natural monopolies: the land as an indispensable means of production for agriculture and forestry, mining, hydroelectric power plants, mineral springs, as a base for housing construction, shipping (canals), etc. (The monopoly on land is an incomplete monopoly (i.e. an oligopoly), because competition isn't excluded, but limited to the circle of land owners).	Ground rent / interest on land	Land reform
2) Artificial monopolies: *a) Legal monopolies*, i.e. monopolies created by law, such as protection of trademarks, designs, inventors, authors, concessions as a prerequisite for the exercise of a trade, fiscal monopolies, etc.	Only in some cases interest (preferential interest)	e.g. reform of the trade law
b) Agreed monopolies, such as cartels, trusts, syndicates. (These also include workers' coalitions, although they occupy an exceptional position).	Usually secondary interest on capital	Weakening and abolition through monetary and currency reform
c) Factual monopolies are those that are not established by law or by agreement, but exist de facto. This includes the money-strike monopoly, which inevitably entails a general monopoly of capital. (Both are incomplete monopolies (i.e. oligopolies), because competition isn't excluded in them, but limited to the circle of owners of money and material capital).	Interest on capital	Currency and monetary reform
B) *Land speculation and currency fluctuations* are the main sources of *irregularly* flowing income without performance.	Differential and speculative gains	The land, currency and monetary reform already mentioned above

Literature list

Oswald Spengler: Fall of the Occident, Munich 1922

Otto Conrad: The Mortal Sin of National Economics, Leipzig 1934

Otto Conrad: Salary and Pension, Leipzig 1909

John Bates Clark: Distribution of wealth, New York 1899

John Maynard Keynes: General theory of the employment of interest and money, Berlin 1952

Anton Menger: The right to full income from work, Stuttgart 1886

Franz Oppenheimer: The Social Question and Socialism, Jena 1912

Silvio Gesell: Natural Economic Order, 1916

E. v. Böhm-Bawerk: History and Critique of the Theories of Capital Interest, Innsbruck 1914

Irving Fisher: Illusion of Money, Berlin 1928

Irving Fisher: Fixed currency, Leipzig 1937

Gustav Cassel: The crisis in the monetary system, Berlin 1933

Gustav Cassel: Socioeconomics,

Fritz Schwarz: Blessing and curse of money, Bern 1931

Robert v. Pöhlmann: From Antiquity and Present, Munich, 1911

Robert v. Pöhlmann: History of the Social Question and Socialism in the Ancient World, Munich 1925

Th. Christen: Das Geldwesen, ein dynamisches System, Bern 1920.

Karl Walker: Overcoming Imperialism, Nuremberg 1946

Karl Walker: The Book Money, Heidelberg 1952

Werner Sombart: The Future of Capitalism, Berlin 1932

Benjamin Tucker: The State in Relationship to the Individual, Berlin 1908

Edo Wandal: The Victory of Socialism, Berlin 1927

Alfred Amonn: Fundamentals of the theory of national prosperity, Jena 1926

Herbert Müller: The municipal basic pension, Leipzig 1942

Herbert Müller: The valuation of land in the city of Braunschweig, 1950

Ernst Winkler: Theory of the Natural Economic Order, Heidelberg 1952

Eugene Marais: The soul of the white ant, Berlin 1939

Walter Eucken: Why National Economy?, Godesberg 1936

John Stuart Mill: Principles of Political Economy, Jena 1924

Henry George: Progress and Poverty (first published in 1879)

Paul Epple: From Proudhon to Gesell, Erfurt 1933

Arthur Mülberger: P. J. Proudhon, Stuttgart 1899

Curriculum vitae of Otto Valentin (1898 - 1969)

<u>Motto:</u> *Man as a spiritual being is a becoming one from the beginning to the end.*
The universe, as the organ of man, has a consciousness:
Man himself is the consciousness,
the self-awareness of the universe.
Man bears the highest responsibility
and he stands directly every moment
and immediately before the highest.

Otto was born in Vienna on January 10, 1898, the son of a civil servant in the former imperial and royal court, Felix Valentin, the oldest of three children. His father died of pulmonary tuberculosis in 1902 at the age of 34. Otto was only four years old, his sister Emma three and his brother Robert, one.

The young mother Anna Valentin, née Pfeiffer, had to look after her three children alone. She came from Vienna and had relatives in Egerland. At first she moved to a farmer family in Burgenland to support the family, but soon the young widow moved to relatives in Egerland in the former crown land of Bohemia and opened a small hand embroidery shop. Otto attended elementary and citizen school there and in 1912, at the age of 14, he began a commercial apprenticeship at the Korkstein company, Aussig branch. What the practice didn't offer, he acquired through self-study.

When his superiors were drafted into the military, Otto, then 17 years old, continued to run this branch independently for three years from 1915. In 1918, he was employed as a buyer and accountant at the power station and streetcar company in Aussig. In 1921, Otto took over the position as accountant and head of the commercial office at the newly founded machinery factory Brode Brothers in Aussig. After the liquidation of the machine factory in 1928, he took up his fourth position at the *AG für Glasindustrie* Friedrich Siemens, in Neusattl near Karlsbad as a tax and foreign exchange specialist, auditor and head of the accounting department.

Otto Valentin and his circle of friends whom he gathered around him encountered the thoughts of Silvio Gesell, Pierre Joseph Proudhon, later, Adolf Portmann and other thinkers, which increasingly led to lively and thorough discussion of the existing economic and political problems of the time. Among his many friends was the Swiss life reformer and co-founder of the WIR economic ring (now "WIR-Bank"), Prof. Dr. h.c. Werner Zimmermann, from Ringgenberg near Bern, who visited him often.

On January 10, 1931, his 33rd birthday, he married Anna Nagl. This happy and harmonious marriage produced four children.

Otto Valentin published many articles on economics for various journals, and he ~~gives~~ gave lectures on the numerous problems of economic policy. After the outbreak of the Second World War, in 1940 he took over the position of auditor and organizer as well as head of statistics at the Sudetenländische Treibstoffwerke AG in Oberleutensdorf near Brüx, a hydrogenation plant. After the end of the war, he retained this position for several months and repatriated to Austria in August 1946.

He lived in a house with a large garden in the 22nd district of Vienna and was agriculturally active with his wife, but above all he wrote for many magazines, including "Die Presse". He had connections to many friends like Dr. Eduard Ziesel, Vienna, Hein Beba, Constance, Prof. Wilhelm Orthner, Herbert K.R. Müller, Otto Lautenbach, Mayor Prof. Dr. Paul Diehl, Munich, Prof. Dr. Ernst Winkler, Friedrich Salzmann, NR Werner Schmid, Zurich and many others. ~~And~~ he was working on his work "Overcoming Totalitarianism".

After the manuscript was finished, he moved in 1951 to Hard, Vorarlberg, the residence on Lake Constance that he had dreamed of since his youth and took up the position of balance sheet accountant at the chemical factory of Dr. G. Eberle there. In 1952, his book was published by Hugo Mayer in Dornbirn, Vorarlberg.

Otto Valentin was closely associated with the "Seminar for the liberal order of state, economy and culture". A very special event for him was the summer conference of this seminar in 1961 as it took place at his residence in Hard, with outstanding lecturers from Austria, Germany and Switzerland (former NR Werner Schmid).

In 1958, three years earlier, at the age of 60, Otto Valentin was diagnosed with a severe Parkinson's disease, from which he suffered increasingly, self-sacrificingly cared for by his wife, until his death on August 5, 1969.

Gerhard Valentin
Hard Vorarlberg, Austria,
October 2007