

OF SPURIOUS CAPITAL AND  
OF PROFITS OFTEN MISTAKEN  
FOR INTEREST  
CHAPTER 4

The belief that interest is the robbery of industry is, I am persuaded, in large part due to a failure to discriminate between what is really capital and what is not, and between profits which are properly interest and profits which arise from other sources than the use of capital. In the speech and literature of the day every one is styled a capitalist who possesses what, independent of his labor, will yield him a return, while whatever is thus received is spoken of as the earnings or takings of capital, and we everywhere hear of the conflict of labor and capital. Whether there is, in reality, any conflict between labor and capital, I do not yet ask the reader to make up his mind; but it will be well here to clear away some misapprehensions which confuse the judgment.

Attention has already been called to the fact that land values, which constitute such an enormous part of what is commonly called capital, are not capital at all; and that rent, which is as commonly included in the receipts of capital, and which takes an ever-increasing portion of the produce of an advancing community, is not the earnings of capital, and must be carefully separated from interest. It is not necessary now to dwell further upon this point. Attention has likewise been called to the fact that the stocks, bonds, etc., which constitute another great part of what is commonly called capital, are not capital at all; but, in some of their shapes, these evidences of

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Land is not capital, nor are stocks and bonds.

indebtedness so closely resemble capital and in some cases actually perform, or seem to perform, the functions of capital, while they yield a return to their owners which is not only spoken of as interest, but has every semblance of interest, that it is worth while, before attempting to clear the idea of interest from some other ambiguities that beset it, to speak again of these at greater length.

Nothing can be capital, let it always be remembered, that is not wealth—that is to say, nothing can be capital that does not consist of actual, tangible things, not the spontaneous offerings of nature, which have in themselves, and not by proxy, the power of directly or indirectly ministering to human desire.

Nothing can be capital that is not wealth.

Thus, a government bond is not capital, nor yet is it the representative of capital. The capital that was once received for it by the government has been consumed unproductively—blown away from the mouths of cannon, used up in warships, expended in keeping men marching and drilling, killing and destroying. The bond cannot represent capital that has been destroyed. It does not represent capital at all. It is simply a solemn declaration that the government will, some time or other, take by taxation from the then existing stock of the people, so much wealth, which it will turn over to the holder of the bond; and that, in the meanwhile, it will, from time to time, take, in the same way, enough to make up to the holder the increase which so much capital as it some day promises to give him would yield him were it actually in his possession. The immense sums which are thus taken from the produce of every modern country to pay interest on public debts are not the earnings or increase of capital—are not really interest in the strict sense of the term, but are taxes levied on the produce of labor and capital, leaving so much less for wages and so much less for real interest.

Bonds and stock do not even represent capital, unless

But, supposing the bonds have been issued for the deepening of a river bed, the construction of lighthouses, or the erection of a public market; or supposing, to embody the same idea while changing the illustration, they have been issued by a railroad company. Here they do represent capital, existing and applied to productive uses, and like stock in a dividend paying company may be considered as evidences of the ownership of capital. But they can be so considered only in so far as they actually represent capital, and not as they have been issued in excess of the capital used. Nearly all our railroad companies and other incorporations are loaded down in this way. Where one dollar's worth of capital has been really used, certificates for two, three, four, five, or even ten, have been issued, and upon this fictitious amount interest or dividends are paid with more or less regularity. Now, what, in excess of the amount due as interest to the real capital invested, is thus earned by these companies and thus paid out, as well as the large sums absorbed by managing rings and never accounted for, is evidently not taken from the aggregate produce of the community on account of the services rendered by capital—it is not interest. If we are restricted to the terminology of economic writers who decompose profits into interest, insurance, and wages of superintendence, it must fall into the category of wages of superintendence.

But while wages of superintendence clearly enough include the income derived from such personal qualities as skill, tact, enterprise, organizing ability, inventive power, character, etc., to the profits we are speaking of there is another contributing element, which can only arbitrarily be classed with these—the element of monopoly.

When James I granted to his minion the exclusive privilege of making gold and silver thread, and prohibited, under severe penalties, every one else from making such thread, the in

their proceeds have been used to obtain capital.

Only to the extent that stocks or bonds represent capital can the income they yield be considered interest.

Much of the remainder is due to the element of monopoly.

Monopoly includes exclusive privileges, but also

the power resulting from aggregation of large masses of capital under common control.

come which Buckingham enjoyed in consequence did not arise from the interest upon the capital invested in the manufacture, nor from the skill, etc., of those who really conducted the operations, but from what he got from the king—viz., the exclusive privilege—in reality the power to levy a tax for his own purposes upon all the users of such thread. From a similar source comes a large part of the profits which are commonly confounded with the earnings of capital. Receipts from the patents granted for a limited term of years for the purpose of encouraging invention are clearly attributable to this source, as are the returns derived from monopolies created by protective tariffs under the pretense of encouraging home industry. But there is another far more insidious and far more general form of monopoly. In the aggregation of large masses of capital under a common control there is developed a new and essentially different power from that power of increase which is a general characteristic of capital and which gives rise to interest. While the latter is, so to speak, constructive in its nature, the power which, as aggregation proceeds, rises upon it is destructive. It is a power of the same kind as that which James granted to Buckingham, and it is often exercised with as reckless a disregard, not only of the industrial, but of the personal rights of individuals. A railroad company approaches a small town as a highwayman approaches his victim. The threat, “If you do not accede to our terms we will leave your town two or three miles to one side!” is as efficacious as the “Stand and deliver,” when backed by a cocked pistol. For the threat of the railroad company is not merely to deprive the town of the benefits which the railroad might give; it is to put it in a far worse position than if no railroad had been built. Or if, where there is water communication, an opposition boat is put on; rates are reduced until she is forced off, and then the public are compelled to

pay the cost of the operation, just as the Rohillas were obliged to pay the forty lacs with which Surajah Dowlah hired of Warren Hastings an English force to assist him in desolating their country and decimating their people. And just as robbers unite to plunder in concert and divide the spoil, so do the trunk lines of railroads unite to raise rates and pool their earnings, or the Pacific roads form a combination with the Pacific Mail Steamship Company by which toll gates are virtually established on land and ocean. And just as Buckingham's creatures, under authority of the gold thread patent, searched private houses, and seized papers and persons for purposes of lust and extortion, so does the great telegraph company which, by the power of associated capital, deprives the people of the United States of the full benefits of a beneficent invention, tamper with correspondence and crush out newspapers which offend it.

It is necessary only to allude to these things, not to dwell on them. Every one knows the tyranny and rapacity with which capital when concentrated in large amounts is frequently wielded to corrupt, to rob, and to destroy. What I wish to call the reader's attention to is that profits thus derived are not to be confounded with the legitimate returns of capital as an agent of production. They are for the most part to be attributed to a maladjustment of forces in the legislative department of government and to a blind adherence to ancient barbarisms and the superstitious reverence for the technicalities of a narrow profession in the administration of law; while the general cause which in advancing communities tends, with the concentration of wealth, to the concentration of power, is the solution of the great problem we are seeking for, but have not yet found.

Any analysis will show that much of the profits which are, in common thought, confounded with interest are in reality due, not to the power of capital, but to the power of concen-

Everyone knows the tyranny and rapacity with which capital when concentrated is frequently wielded to corrupt, to rob, and to destroy. The profits thus derived are not interest.

trated capital, or of concentrated capital acting upon bad social adjustments. And it will also show that what are clearly and properly wages of superintendence are very frequently confounded with the earnings of capital.

And, so, profits properly due to the elements of risk are frequently confounded with interest. Some people acquire wealth by taking chances which to the majority of people must necessarily bring loss. Such are many forms of speculation, and especially that mode of gambling known as stock dealing. Nerve, judgment, the possession of capital, skill in what in lower forms of gambling are known as the arts of the confidence man and blackleg, give advantage to the individual; but, just as at a gaming table, whatever one gains some one else must lose.

Now, taking the great fortunes that are so often referred to as exemplifying the accumulative power of capital—the Dukes of Westminster and Marquises of Bute, the Rothschilds, Astors, Stewarts, Vanderbilts, Goulds, Stanfords, and Floods—it is upon examination readily seen that they have been built up, in greater or less part, not by interest, but by elements such as we have been reviewing.

How necessary it is to note the distinctions to which I have been calling attention is shown in current discussions, where the shield seems alternately white or black as the standpoint is shifted from one side to the other. On the one hand we are called upon to see, in the existence of deep poverty side by side with vast accumulations of wealth, the aggressions of capital on labor, and in reply it is pointed out that capital aids labor, and hence we are asked to conclude that there is nothing unjust or unnatural in the wide gulf between rich and poor; that wealth is but the reward of industry, intelligence, and thrift; and poverty but the punishment of indolence, ignorance, and imprudence.

Profits due to risk are not interest, since what one gains another loses.

The great fortunes have been built up largely from profits of monopoly and risk, not from interest.