

Silvio Gesell  
**THE NATURAL ECONOMIC ORDER**  
INTRODUCTION

If employers of labor were offered money-capital at half the present rate of interest, the yield of every other class of capital would also soon fall to half. If, for example, interest on the money borrowed to build a house were less than the rent for an equivalent existing house, or if it were more profitable to bring a piece of wasteland into cultivation than to rent equivalent farmland, competition would inevitably reduce house and farm rents to the level of the reduced interest on money. For the surest method of depreciating capital assets (a house, a field) is obviously to create and operate additional capital assets alongside it. It is a law of economics that increased production increases the mass of available money-capital, which tends to raise wages and finally to reduce interest to zero.”<sup>1</sup>

The abolition of unearned income, of so-called surplus value also termed interest and rent, is the immediate economic aim of every socialistic movement. The method generally proposed for attaining this aim is communism, in the shape of nationalization or socialization of production. I know of only one socialist, - Pierre Joseph Proudhon<sup>2</sup> - whose investigations into the nature of capital point to another solution of the problem. The demand for nationalizing production is advocated on the plea that the nature of the means of production needs it. It is usually asserted off-hand, as a truism, that ownership of the means of production must necessarily in all circumstances give the capitalist the upper hand when bargaining with the workers about wages. This advantage is represented, and destined eternally to be represented, by "surplus-value" or interest on capital. No one, except Proudhon, was able to conceive that the undue, now manifest, advantage of property can be shifted to the dispossessed (the workers), simply by constructing a new house beside every existing house, and a new factory beside every existing factory.

Proudhon showed socialists, over fifty years ago, that uninterrupted hard work is the only method of successfully attacking capital. But socialists are further from comprehending this truth today than they were in Proudhon's time.<sup>3</sup>

As a matter of fact Proudhon has not been entirely forgotten, but he has never been understood either. Had his advice been taken and acted upon, there would be now no such thing as capital. But because he was mistaken in his method (the exchange banks), his whole theory was discredited.

How was it that the Marxian theory of capital succeeded in ousting Proudhon's, thus giving sway to communistic socialism? How is it that every newspaper in the world speaks of Marx and his theory? Some have suggested as a reason the hopelessness, and corresponding harmlessness, of Marxian doctrine. "No capitalist is afraid of his theory, just as no capitalist is afraid of Christian doctrine; it is therefore positively an advantage to capital to have Marx and Christ discussed as widely as possible, for Marx can never hurt capital. But beware of Proudhon; better keep him out of sight and hearing! He is dangerous, since there is no denying the truth of his contention that if the workers were allowed to remain at work without hindrance, disturbance or interruption, capital would soon be choked by an over-supply of capital (not to be confused with an over-production of goods). Proudhon's suggestion for attacking capital is a dangerous one, since it can be put into practice without more ado. The Marxian program speaks of the tremendous productive capacity of the present-day trained worker equipped with modern machinery and tools. But Marx cannot put this tremendous productive capacity to use, whereas in the hands of Proudhon it becomes a deadly weapon against capital. Therefore talk away, harp

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<sup>1</sup> P.J. Proudhon: *Qu'est-ce que la propriété?* Paris, E. Flamarion, New Edition p.235.

<sup>2</sup> [1809-65. Journalist, libertarian and socialist, two generations removed from Gesell.]

<sup>3</sup> [And, shall we say, a century hence.]

on Marx, so that Proudhon may be forgotten."

This explanation is plausible. And is not the same true of Henry George's<sup>4</sup> land-reform movement? The landowners soon discovered that this was a sheep in wolf's clothing; that taxation of rent on land could not be effectively carried out and that the man and his reform were therefore harmless. The Press was allowed to advertise Henry George's Utopia, and land-reformers were everywhere received in the best society. Every German "agrarian" and speculator in corn-duties turned single-taxer.<sup>5</sup> The lion was toothless, so it was safe to play with him, just as it is fashionable for many to play with Christian principles.

Marx's examination of capital goes astray at the outset.

1. Marx succumbs to a popular fallacy, holding that capital consists of material goods. For Proudhon, on the contrary, interest is not the product of material goods, but of an economic situation, a condition of the market.

2. Marx regards surplus value as a spoil resulting from the abuse of power conferred by ownership. For Proudhon surplus value is subject to the law of supply and demand.

3. According to Marx, surplus value must invariably be positive. For Proudhon negative surplus value is also possible.

(Positive surplus value is surplus value on the supply side, i.e. the capitalist's negative surplus value is on the side of labour).

4. Marx's remedy is the political supremacy of the dispossessed, to be achieved by means of organization. Proudhon's remedy is the removal of the obstacles preventing our productive capacity from fully developing.

5. For Marx, strikes and crises are welcome occurrences, and the final forcible expropriation of the expropriators is the means to the end. Proudhon, on the contrary, says: On no account allow yourselves to be deterred from work; strikes, crises and unemployment are the most powerful allies of capital; whereas nothing is more fatal to it than hard work.

6. Marx says: Strikes and crises will sweep you along towards your goal; the great collapse will land you in paradise. - No, says Proudhon, that's humbug; methods of that kind carry you away from your goal. With such tactics you will never extract as much as one per cent from interest.

7. To Marx, private ownership means power and supremacy. Proudhon, on the contrary, recognises that this supremacy is rooted in money, and that under altered conditions the power of private ownership may be transmuted into weakness.

If, as Marx affirms, capital consists of material goods, possession of which gives the capitalist his supremacy, any addition to these goods would necessarily strengthen capital. If a load of hay or a barrowful of economic literature<sup>6</sup> weighs 100 lbs., two loads, two barrowfuls must weigh exactly 200 lbs. Similarly if a house yields \$1000 of surplus-value annually, ten houses added to it must always, and as a matter of course, yield ten times \$1000 - on the assumption that capital consists simply of material goods.

But we all know that capital cannot be added up like material goods, since additional capital not infrequently diminishes the value of capital already existing.

The truth of this can be tested by daily observation. In certain circumstances the price of

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<sup>4</sup> [1839-97. American, born in Philadelphia. His *Progress and Poverty* (1879) has sold more copies than all of Marx's works put together.]

<sup>5</sup> [Georgists were early dubbed "single-taxers" because George believed that diverting the rent from bare land to the coffers of the State would be enough for all its expenditure. The point is still debated. If not all, it would cover the greater part of State expenditure.]

<sup>6</sup> [The irony of this remark will appear fully in Part Three.]

a ton of fish may be greater than the price of 100 tons. What price would air fetch, if it were not so plentiful? As it is, we get it free of charge.

Not long before the outbreak of the war, landlords in the suburbs of Berlin were in despair about the decline of house-rents, (their "surplus-value"), and the capitalistic press was clamorous in denouncing the "building fury of workers and contractors," or, the "building plague rife in the housing industry."

Are not these expressions a revelation of the precarious nature of capital? Capital, which Marxists hold in such awe, dies of the "building plague"; it decamps before the "building fury" of the workers! What would Proudhon and Marx have advised in such a situation? "Stop building", Marx would have cried; "lament, go a-begging, bemoan your unemployment, declare a strike! Every house you build adds to the power of the capitalists as sure as two and two make four. The power of capital is measured by surplus value, in this case house-rent; so the greater the number of houses the more powerful, surely, capital becomes. Therefore listen to me, limit your output, agitate for an eight-hour or even a six-hour day, since every house you build adds to house-rent and house-rent is surplus value. Restrain, therefore, your building fury, for the less you build, the more cheaply you'll be housed!"

Probably Marx would have shrunk from uttering such nonsense. But the Marxian doctrine, which regards capital as a material commodity, misleads the workers into thinking and acting on these lines.

Now listen to Proudhon: "Full steam ahead! Let's have the building fury, give us the building plague! Workers and employers, on no account let the trowel be snatched from your hands. Down with all who attempt to interfere with your work; they are your deadly enemies! Who are they that prate about a building plague, over-production in the housing industry, when house-rents still show traces of surplus value, and capital of interest? Let capital die of the building plague! You have been allowed to indulge in your building fury for about five years, and capitalists already feel the pinch. They are already lamenting the decline of surplus value; rents have already dropped from 4 to 3% - that is, by a quarter. Three times five years more of untrammelled labor and you will be reveling in houses freed from surplus value. Capital is dying, and it is you who are killing it by your labour."

Truth is as sluggish as a crocodile in the mud of the eternal Nile. It does not care about time; a human lifespan means nothing to it, since truth is everlasting. But truth has an agent that, like mortal man, is always in a hurry. For this agent, time is money; it is ever busy and excited, and its name is error. Error cannot afford to lie low and let the ages pass. It is constantly giving and receiving hard knocks. It is in the way of everyone and everyone is in its way. It is the true stumbling block.

Therefore it does not matter that Proudhon is taboo. His adversary Marx, with his errors, takes good care not to let truth come to light. In this sense we may say that Marx has become the agent of Proudhon. Proudhon is at peace in his grave. His words have everlasting worth. But Marx must be ever turning in it.

Some day the truth will prevail and Marx's doctrines will be relegated to the museum of human errors.

Even if Proudhon had really been suppressed and forgotten, the nature of capital would still remain unchanged. The truth would be discovered by another; of the discoverer's name truth cares not a whit.

The author of this book was led onto Proudhon's path and came to the same conclusions. Perhaps it was fortunate that he was ignorant of Proudhon's theory of capital; for he was thus enabled to set about his work independently, independence being the best preparation for scientific inquiry.

The present author has been more fortunate than Proudhon. He discovered what Proudhon had discovered fifty years earlier, namely the nature of capital, but he also discovered

a practical road to Proudhon's goal. And that, after all, is what matters.

Proudhon asked: Why are we short of houses, machinery and ships? And he gave the correct answer: Because money limits their being built. Or, in his own words: "Because money is a sentry posted at the entrance to the market, with orders to let no one pass. You may imagine that money is the key that opens the market gates (by which he meant the exchange of products). That is not true. Money is the bolt that bars them."

Money simply will not suffer another house to be built in addition to every existing house. As soon as capital ceases to yield the traditional interest, money goes on strike, bringing work to a standstill. Money, therefore, acts like a serum against the "building plague" and the "working fury". It renders capital (houses, industrial plant, ships) immune from the "menace" of its own increase.

Having discovered the barring or blocking nature of money, Proudhon raised the slogan: Let us combat the privilege of money by raising goods and labor to its level. For two privileges, if opposed, neutralize one another. By attaching to goods the surplus weight now on the side of money, we make the two weights balance. Such was Proudhon's idea, and to put it into practice he founded the Exchange Banks. As everyone knows, they failed.

And yet the solution that eluded Proudhon is at hand. All is needed is to abandon the customary standpoint of the possessor of money, and to look at the problem from the standpoint of labour and of the possessor of goods. This shifting of the standpoint will let us grasp the solution directly. Goods, not money, are the real foundation of economic life.

Goods and their derivatives make up 99% of our wealth, money only 1%. Therefore let us treat goods as we treat foundations; let us not tamper with them. We must accept goods as they appear in the market. We cannot alter them. If they rot, break, perish, so be it; it is their nature. However efficiently we may organize Proudhon's Exchange Banks, we cannot save the newspaper in the hands of the news vendor from being reduced, two hours later, to waste paper, if it fails to find a buyer. We must also remember that money is a universal store of value; all the money that serves commerce as a medium of exchange comes to the savings banks and lies there until it is enticed into circulation again by interest. And how can we ever raise goods to the level of ready money (gold) in the eyes of savers? How can we induce savers, instead of saving money, to save by filling their chests or store-rooms with straw, books, bacon, oil, hides, guano, dynamite, porcelain?

Yet this is what Proudhon really aimed at in attempting to bring goods and money to a common level. Proudhon had overlooked the fact that money is not only a medium of exchange, but also a store of value, and that money and potatoes, money and lime, money and cloth can never in any circumstances be looked upon as things of equal worth in the saver's chest. A youth saving against old age will prefer a single gold coin to the contents of the largest warehouse.

We cannot, therefore, tamper with goods. They are the primary factor to which everything else must be adapted. But let us look a little more closely at money, for here some tampering may prove feasible. Must money always remain what it is at present? Must money, as a commodity, be superior to the commodities that, as medium of exchange, it is meant to serve? In case of fire, flood, crisis, war, changes of fashion and so forth, is money alone to be immune from damage? Why must money be superior to the goods it is meant to serve? And is not the superiority of money to goods the privilege that we found to be the cause of surplus value, and that Proudhon endeavoured to abolish? Let us, then, put an end to the privilege of money. No one, not even savers, speculators, or capitalists, must find money, as a commodity, preferable to the contents of the markets, shops, and warehouses. If money is not to hold sway over goods, it must deteriorate as they do. Let it be attacked by moth and rust, let it sicken, let it run away; and when it comes to die, let its possessor pay to have the carcass flayed and buried. Then, and not till then, shall we be able to say that money and goods are on an equal footing and perfect

equivalents - as Proudhon aimed at making them.

Let us put this in terms of a commercial formula. We say: The possessor of stored goods invariably incurs a loss in quantity and quality. Moreover he has to pay the cost of storage (rent, insurance, care taking etc.), say 5% per annum (likely less).

Now, what depreciation does a banker, capitalist, or hoarder assign to the money in his possession or on loan? By how much, for instance, did the war chest in the Julius Tower at Spandau<sup>7</sup> decrease in the 44 years since storing it there? Not by one penny!

Therefore the answer to our question is clear: we must subject money to a loss equivalent to that to which stored goods are liable. Money would then no longer be superior to goods. It would make no difference to anyone whether he possessed, or saved, money or goods. Money and goods would then be perfect equivalents.

Proudhon's problem is solved, and the fetters that have prevented humanity from developing its full powers fall away.

My endeavour to give this investigation the form of a social and political programme has induced me to postpone the solution of the problem to Parts 3 - 5 of this book, but to begin it with sections on Distribution and Free-Land. This arrangement serves to bring out the general scheme and to reveal more clearly the aim of a Natural Economic Order. Readers eager to learn how Proudhon's problem has been solved may however begin with Parts 3 - 5, turning to Parts 1 and 2 later.

Recommended: Begin with part 3

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<sup>7</sup> [The war chest (about £ 6 000 000) came mainly from the French indemnity paid to Germany after the war of 1870.]